The Economist

America's marriage gap

Beijing and Blackstone

Cyberwarfare gets scarier

Don't feel guilty about the mammoths

A flawed immigration bill

MAY 26TH-JUNE 1ST 2007 www.economist.com

Israel's wasted victory

The six-day war, 40 years on

PRINT EDITION

Full contents | Subscribe
Enlarge current cover
Past issues/regional covers

NEWS ANALYSIS
POLITICS THIS WEEK
BUSINESS THIS WEEK

OPINION
Leaders
Letters to the editor
Blogs
Kallery

WORLD
United States
The Americas
Asia
Middle East & Africa
Europe
Britain
International
Country Briefings Go
Cities Guide Go

SURVEYS

BUSINESS
Management Reading
Business Education

FINANCE & ECONOMICS
Economics Focus
Economics A-Z

SCIENCE & TECHNOLOGY
Technology Quarterly

BOOKS & ARTS
Style Guide

PEOPLE
Obituary

MARKETS & DATA
Weekly Indicators
Currencies
Big Mac Index
Chart Gallery

DIVERSIONS
Correspondent's Diary

RESEARCH TOOLS

AUDIO

DELIVERY OPTIONS
E-mail Newsletters
Mobile Edition
RSS Feeds
Screensaver

CLASSIFIED ADS

The Economist Group
Economist Intelligence Unit
Economist Conferences
The World In
Intelligent Life
CFO
Roll Call
European Voice
EuroFinance Conferences
Economist Diaries and Business Gifts

Advertisement

Print Edition May 26th 2007

On the cover
Six days of war followed by 40 years of misery. How can it ever end? leader

Previous print editions
May 19th 2007
May 12th 2007
May 5th 2007
Apr 28th 2007
Apr 21st 2007
More print editions and covers »

Subscribe
Subscribe to the print edition
Or buy a Web subscription for full access online
RSS feeds
Receive this page by RSS feed

Advertisement

The world this week

Politics this week
Business this week
KAL's cartoon

Leaders

Israel and the Palestinians
Israel's wasted victory

The UN and Iran
Playing with fallout

Financial exchanges
Making the future

America's proposed immigration reform
Better than nothing

British schools
The S-word

Letters

On America's political system, Dow Jones, Nigeria, wireless networks, Tony Blair

Special Report

Marriage in America
The frayed knot

Israel and the Palestinians
Forty years on

United States

Immigration
Of fences and visas

Iraq
Pulling the pull-out

The World Trade Centre
The super cracks it

Guantánamo
Easier to open than to close

Coal
Battle of the mountain tops

Michael Moore
Sickohim?

Lexington
The politics of plenty

The Americas

The Canadian Arctic
Anxiously watching a different world

The Caribbean
Fission

Mexico
Youthful in Yucatán

Asia

The world's worst holiday destination
North Korea through Chinese eyes

Japan
Abe's bounce

Indian politics
Saffron fading

Asia's last lions
More of a whimper

Myanmar
Dirty dealings

Kazakhstan
Kazakhbashi

Business

European companies
Giants forced to dance

Conglomerates
I don't love Jeff

America's clean-tech clusters
Venture capitals

Tourism in Greenland
Global warming's boom town

Microsoft
Truth in advertising

Mobile phones
Screen savers

Canada's oil boom
Building on sand

Hobbies
Scrap mania

Face value
Africa calling

Special Report

Financial exchanges
Buy, buy, buy

Finance & Economics

Sovereign-wealth funds
The world's most expensive club

The OECD and fiscal policy
Words of warning

Buttonwood
Painting by numbers

Hedge-fund regulation
The heavy brigade

UniCredit
The Profumo flair

Economics focus
The great wall of money

Science & Technology

Mass extinctions
It came like yesterday

Synaesthesia
Too well connected

Synthetic biology
Gassed up

Viagra and jet lag
Mile-high hamsters

Books & Arts

The six-day war
Jews and Prussians

Garibaldi
An idol of his own design

Thomas Bewick
Plain man's art

New fiction
The resilience of women

American weddings
Beware the bridezilla monster

Self-portraits
How they wanted to be seen

Middle East & Africa

Lebanon
The cauldron may bubble over again

Algeria
Sour and prickly

Nigeria
New government, old problems

Ghana
Bankruptcy and burials

The International Criminal Court
More suspects in its sights

South Africa
The name game

Advertisement

Europe

France's new government
A study in perpetual motion

French foreign policy
The Kouchner effect

Romania and Bulgaria
Losers take all

Russia and dissent
Old habits, new hypocrisy

Germany's depressed east
Blossoming landscapes

Spain's local elections
The peace test

Charlemagne
Constitutional conundrums

Britain

Relations with Russia
Out of reach

End of an era

Energy policy
More heat than light

Planning shake-up
So much for localism

Whole Foods Market
Organic Albion

League tables and the NHS
Top of the class

The Hay Festival
All we like sheep

Bagehot
Last call

Articles flagged with this icon are printed only in the British edition of *The Economist*

International

Cyberwarfare
Newly nasty

Internet history
Greatest hits

Humanitarian aid
Weighed and found wanting

Whaling
Sharpening their harpoons

New fiction
Life under the shadow

Obituary

Malietoa Tanumafili II

Economic and Financial Indicators

Overview

Hungary

Output, prices and jobs

The Economist commodity-price index

Trade, exchange rates, budget balances and interest rates

GDP growth forecasts

Markets

Advertisement

Advertisement

Classified ads

Jobs
International call, Tenure Track and Tenure Positions
MADRID INSTITUTE FOR ADVANCED STUDIES INSTITUTO MADR....

Business / Consumer
Start Your Own Business
"WSI is ranked the Worlds #1 Internet Franchise. Become a fully certified i....

Tenders
Start Your Own Business
"Become a Professional Internet Consultant, Channel profitable solutions to SME's. ....

Jobs
Access to Medicines - Policy and Advocacy Adviser
Access to Medicines – Policy & Advocacy Adviser £49,189 – £6....

Business / Consumer
Part Time Consulting Teaching Position
Suntiva supports the International Defense Acquisition Resour....

Tenders
Great investment opportunities
in the following sectors: Agriculture Constructio....

Sponsors' feature

About sponsorship »

An Economist Group business Copyright © The Economist Newspaper Limited 2007. All rights reserved. Advertising Info | Legal disclaimer | Accessibility | Privacy policy | Terms & Conditions | Help

Produced by =ECO PDF TEAM=
Thanks xxmama

Politics this week

May 24th 2007
From The Economist print edition

AP

Lebanon suffered its worst internal fighting since the 15-year civil war that ended in 1990, as its national army hit back against a Sunni Islamist group called Fatah al-Islam, which is considered close to al-Qaeda and was hunkered down in a Palestinian refugee camp on the edge of the northern town of Tripoli. At least 80 people have so far been killed. See article

As fighting between **Palestinians** in the Gaza Strip calmed down, militants from the Islamist movement Hamas and other groups stepped up rocket attacks on **Israel**. In the past fortnight, over 200 home-made rockets have been fired, killing one Israeli, while retaliatory Israeli air strikes have killed some 50 Palestinians, including civilians. This week Israel also arrested 32 Hamas leaders in the West Bank, including a government minister and the mayor of Nablus, the territory's biggest town. See article

The United Nations' nuclear inspectors confirmed that Iran had failed to meet another deadline to stop enriching uranium. The six countries leading the diplomacy at the UN—its Security Council's five permanent members plus Germany—are likely to start drafting a third resolution to tell Iran to suspend their nuclear activity or face tougher sanctions. See article

Algeria's National Liberation Front, which does the bidding of the country's president, Abdelaziz Bouteflika, easily won a general election, but barely a third of the registered voters bothered to turn out. See article

The International Criminal Court at The Hague launched an investigation into atrocities committed in 2002 and 2003 during civil strife in the **Central African Republic**, with its former president, Ange-Félix Patassé, among others, apparently in the court's sights. See article

Radioactive stuff

British prosecutors and the British government called for the extradition of a former **Russian KGB agent**, Andrei Lugovoi, on charges of murdering an ex-spy, Alexander Litvinenko, in London last November. The Russian authorities angrily refused the request. Anglo-Russian relations hit a fresh low.

The new **French government** appointed by President Nicolas Sarkozy took office, under his prime minister, François Fillon. It began preparations for a parliamentary election next month, which opinion polls suggest will produce a big majority for Mr Sarkozy's centre-right UMP party. See article

In **Turkey**, six people were killed and as many as 90 injured in a rush-hour suicide-bombing in the capital, Ankara. The police said the explosives used were similar to ones used before by the Kurdish PKK terrorist group.

A **Serbian court** found 12 men guilty of the 2003 assassination of the pro-Western prime minister, Zoran Djindjic. The case was the first to be heard in Belgrade's special court for organised crime.

Romania's president, Traian Basescu, secured a big majority in a referendum against his own impeachment. Early parliamentary elections now look more likely. See article

Refusing to play ball

The whole Senate started to study the “breakthrough” compromise on **immigration** legislation reached between the White House and those senators who are crafting a plan. George Bush is pushing for a

liberal bill that provides a guest-worker programme for illegal immigrants, and beefs up border security. However, Congress remains tepid in its support and the Senate voted overwhelmingly to reduce by half the number of proposed permits for illegal immigrants. See article

With the Democrats dropping their demand for a timetable for withdrawing troops, Congress pushed ahead with a new spending bill for military operations in **Iraq**. See article

The first nationwide study of **Muslims in America** found they were wealthier than Muslims in Europe and "largely assimilated, happy with their lives and moderate". A quarter of Muslim Americans come from the Arab region, said the survey from the Pew Research Centre.

New York's governor, Eliot Spitzer, announced a settlement with insurers over claims stemming from the **World Trade Centre**, enabling the redevelopment of the site to proceed. See article

America promised to act quickly in choosing a new boss for the World Bank. **Paul Wolfowitz** agreed to step down last week.

Viewers' protest

AFP

There were large demonstrations in **Venezuela** against a decision by President Hugo Chávez to shut down the main opposition television channel, due to take effect on May 27th. Its frequency is to be used by a government-funded channel.

Brazil's energy minister, Silas Rondeau, resigned after an aide was one of 50 people arrested by federal police on suspicion of taking money on government contracts. Mr Rondeau is from the centrist PMDB party. In the first term of President Luiz Inácio Lula da Silva from 2002 to 2006 the government was shaken by several corruption scandals.

Mexico's formerly ruling Institutional Revolutionary Party wrested control of Yucatán from the governing National Action Party in the first state election since Felipe Calderón took over as the country's president last December. See article

A military man

AFP

Pakistan's president, General Pervez Musharraf, defended the political role of the army and said his uniform was like a "second skin" to him. Earlier, Mr Musharraf, who is in the midst of a constitutional crisis, firmly ruled out allowing his two main opposition rivals, Benazir Bhutto and Nawaz Sharif, to return from exile before elections that are due to be held later this year.

China backed down from plans to force the estimated 20m Chinese bloggers to register their real names with the government. The state-controlled association that regulates the internet said they should be "encouraged" to register instead.

Kazakhstan's parliament scrapped term limits on the current president, Nursultan Nazarbayev, allowing him to run for president as many times as he likes. See article

A British climber made the first mobile-phone call from the summit of **Mount Everest**. He took advantage of a Chinese mobile-phone base to ring his family, presumably to ask if he should pick up anything on the way home.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Business this week

May 24th 2007
From The Economist print edition

A second set of talks with the aim of improving the **"strategic economic dialogue"** between China and the United States was held in Washington, DC. Delegations led by Wu Yi, China's deputy prime minister, and Hank Paulson, America's treasury secretary, discussed trade, currency rates and environmental policies. The most significant agreement at the meetings was to double the number of passenger flights between the two countries by 2012.

China's new state holding corporation agreed to buy a nearly 10% stake in **Blackstone Group** for $3 billion. Forming part of a plan to diversify the investment of its $1.2 trillion foreign-exchange reserves, it is the first time China has used some of the money to invest in a commercial transaction, which Blackstone's boss described as an "historic move". The deal is linked to a public offering due later this year from the acquisitive private-equity firm (its latest big buy being **Alliance Data Systems**, a data-processing company, for $6.4 billion). See article

In the largest-ever leveraged buy-out in the telecoms industry, **Alltel**, America's fifth-biggest wireless operator, agreed to a $27.5 billion takeover from a private-equity consortium.

As expected, **Alcan**, a Canadian aluminium producer, rejected a $27 billion hostile bid from **Alcoa**, its American rival. Investors continued to speculate whether a white knight would ride to Alcan's rescue, or if Alcoa itself would become a takeover target.

Able Siemens?

Siemens named Peter Löscher as its new chief executive. He will replace Klaus Kleinfeld, who announced his resignation last month. Mr Löscher is an executive at Merck, an American drugs company. It is the first time that the German engineering conglomerate, which traces its roots back to 1847, has chosen someone from outside the company to be its boss, signalling a break from the recent bribery allegations that have embroiled Siemens under Mr Kleinfeld's leadership. See article

General Electric agreed to sell its plastics division, which supplies the material used to make a wide range of products, including Apple's iPod, to **Saudi Basic Industries Corporation** (SABIC) for $11.6 billion. See article

Marks & Spencer produced its best profit in nine years. The fallen star of British retailing reported that net income jumped by 26%, to £660m ($1.3 billion), for the year ending March 31st.

Microsoft made its biggest acquisition, agreeing to pay $6 billion for **aQuantive**, an online advertising company. See article

The latest Italian fashion

There was more consolidation among Italian banks. **UniCredit** agreed to take over **Capitalia** in a *euro*22 billion ($29 billion) deal that creates Europe's second-biggest bank; and **Banca Popolare di Milano** said it would buy **Banca Popolare dell'Emilia Romagna** for *euro*5.5 billion. The recent trend of banking mergers throughout Europe is especially marked in Italy, where new leadership at the country's central bank has welcomed takeovers in the financial sector. See article

British Airways confirmed it had joined a consortium led by Texas Pacific Group, a private-equity firm, that is considering a bid for **Iberia**, a Spanish airline in which BA holds a 10% stake.

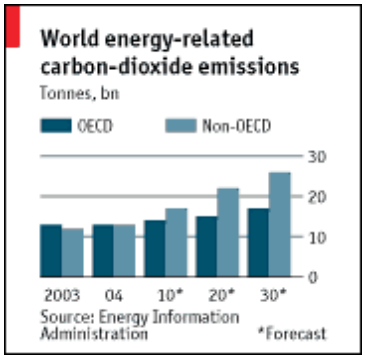
Virgin America won the approval of American regulators to begin flights within the United States, after a review that lasted almost 18 months. In order to win permission to operate, the low-cost airline, founded by Sir Richard Branson, had to make several concessions and prove it met rules that limit foreign

ownership of American domestic carriers. Based in San Francisco, VA will make its first flight to New York's JFK airport this summer.

In a surprise deal, **EMI** announced it was being bought by Guy Hands's **Terra Firma Capital Partners** for £3.2 billion ($6.4 billion). The music company's share price rose by almost 10% amid rumours about possible rival bids, with a focus on the latest intentions of Warner Music, which has spent several years trying to secure a merger with EMI.

Not-as-filthy rich

America's Energy Information Administration released its annual *International Energy Outlook*. Based on today's policies, it forecast that the **world's consumption of energy** would increase by 57% between 2004 and 2030. If oil prices remain as high as they are today, coal was predicted to be the fastest-growing energy source. The survey also noted that the carbon emissions of the developing countries surpassed those of the industrialised countries in 2004 for the first time and that China will overtake America as the world's biggest energy user in the 2020s.



Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

KAL's cartoon

May 24th 2007
From The Economist print edition

Kevin Kallaugher

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Israel and the Palestinians

Israel's wasted victory

May 24th 2007
From The Economist print edition

Six days of war followed by 40 years of misery. How can it ever end?

Getty Images

ON THE seventh day Jews everywhere celebrated Israel's deliverance from danger. But 40 years after that tumultuous June of 1967, the six-day war has come to look like one of history's pyrrhic victories. That is not to say that the war was unnecessary. Israel struck after Egypt's President Nasser sent his army into the Sinai peninsula, evicted United Nations peacekeeping forces and blockaded Israeli shipping through the Gulf of Aqaba. Israel's victory opened the waterway and smashed its enemies' encircling armies, averting what many Israelis sincerely expected to be a second Holocaust. And yet, in the long run, the war turned into a calamity for the Jewish state no less than for its neighbours.

But you never phoned

Part of the trouble was the completeness of the triumph. Its speed and scope led many Israelis to see a divine hand in their victory. This changed Israel itself, giving birth to an irredentist religious-nationalist movement intent on permanent colonisation of the occupied lands (see article). After six days Israel had conquered not just Sinai and the Syrian Golan Heights but also the old city of Jerusalem and the West Bank—the biblical Judea and Samaria where Judaism began. In theory, these lands might have been traded back for the peace the Arabs had withheld since Israel's founding. That is what the UN Security Council proposed in Resolution 242. But Israelis were intoxicated by victory and the Arabs paralysed by humiliation. The Arabs did not phone to sue for peace and Israel did not mind not hearing from them. Instead, it embarked on its hubristic folly of annexing the Arab half of Jerusalem and—in defiance of law, demography and common sense—planting Jewish settlements in all the occupied territories to secure a Greater Israel.

The six-day war changed the Palestinians too. They had been scattered by the fighting that accompanied Israel's founding in 1948. Some fled beyond Palestine; others became citizens of the Jewish state or lived under Egypt in Gaza and Jordan in the West Bank. The 1967 war reunited them under Israeli control and so sharpened their own thwarted hunger for statehood. When, decades later, Egypt and Jordan did make peace with Israel, the Palestinians did not recover Gaza and the West Bank. This has left some 4m Palestinians desperate for independence but in a confined land choked by Jewish settlements—along with the fences, checkpoints and all the hardships and indignities of military occupation. Ariel Sharon, it is true, dragged Israel out of the Gaza Strip two years ago. But so what? The Palestinians will not consider peace unless they get the West Bank and Arab Jerusalem too. And Hamas, the Islamists who now run what passes for a Palestinian government, says it will not make a permanent peace even then.

Is there a way out? Yes: but making peace will take courage, and too much of the energy that should have gone into peacemaking has been squandered on the blame game. There is, admittedly, plenty of blame to go round. What right had the British, in 1917, to promise the Jews a national home in Palestine? Why did the Palestinians reject partition in 1947? Why did Israel colonise the territories after 1967? Why did the Americans let Israel get away with it? Why did the Arab states leave the refugees to fester in camps? The Palestinians are terrorists, Zionism is racism, Israel's enemies are anti-Semites. Yasser Arafat should have accepted Israel's “generous offer” at Camp David in 2000. But, hang on, Israel's offer was not so generous...

And so the quarrel spins, growing more bitter with each revolution and spreading far beyond the Middle East. What started as a national struggle between two peoples for one land is gradually, and often wilfully, being transformed into a war of religion, feeding poison into the wounded relations between Islam and the West as a whole. It is scandalous that the occupation has persisted since 1967. This conflict should have been resolved long ago, and its continuation is an indictment of all involved, from the warring parties for their intransigence, to regional powers that have exploited the Palestinian cause for self interest, to the great powers for their lack of sustained attention. It should end—but how?

It's not rocket science

The answer has been obvious at least since 1937, when a British royal commission under Lord Peel reported that “an irrepressible conflict” had arisen between the Arabs and Jews of Palestine and that the country would have to be partitioned. More recently, the manner of the division has become obvious too. Despite all Israel's settlements, demography and justice still point to a border based on the pre-1967 lines, with minor adjustments of the sort Bill Clinton suggested in 2000.

As Mr Clinton's failure at Camp David demonstrated, securing agreement for such a deal will be hard. The Clinton solution would require Israel to give up the bulk of its settlements in the West Bank, uproot a great many more settlers than it did in Gaza and share sovereignty over Jerusalem. The Palestinians would have to accept that most refugees would “return” not to their homes of 60 years ago inside Israel but to a new state in the West Bank and Gaza. Such compromises will hurt. But for either side to give less and demand more will merely tip the difficult into the impossible.

Right now both continue to offer too little and demand too much. Israel has at least abandoned the dream of a Greater Israel that bewitched it after the great victory of 1967. The illusion that the Palestinians would fall into silence has been shattered by two *intifadas* and every rocket Hamas fires from Gaza. Israel's present government says it is committed to a two-state solution. But it is a weak government, and has lacked the courage to spell out honestly the full territorial price Israelis must pay. The Palestinians have meanwhile gone backwards. If Hamas means what it says, it continues to reject the idea that Jews have a right to a national existence in the Middle East.

What self-defeating madness. For peace to come, Israel must give up the West Bank and share Jerusalem; the Palestinians must give up the dream of return and make Israel feel secure as a Jewish state. All the rest is detail.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

The UN and Iran

Playing with fallout

May 24th 2007
From The Economist print edition

Negotiate with Iran; but not while it is enriching uranium, even on a "limited" basis

Reuters

Get article background

TO IGNORE one unanimous United Nations Security Council resolution may be considered impudence; to defy a second looks like policy. This week the UN's nuclear inspectors confirmed that, far from suspending work to enrich uranium (which, sufficiently purified, can be made into bombs), as the council has now twice demanded, Iran is spinning ever more centrifuge machines ever faster at its plant at Natanz. Shrugging off the limited sanctions so far, Iran claims an "inalienable right" under the Nuclear Non-Proliferation Treaty (NPT) to any nuclear technology it fancies. So what next?

Expect the six countries leading the diplomacy at the UN—the council's five permanent members (America, Britain, China, France and Russia) plus Germany—to start work on a third resolution. Like the previous two, it will remind Iran of its inalienable obligation, imposed by the UN, to suspend both uranium and plutonium work until inspectors from the International Atomic Energy Agency (IAEA) can be convinced its nuclear efforts are peaceful, as claimed.

Iran looks set to ignore this resolution too. Neither the offer of inducements—trade and political talks, including with America, and help with less proliferation-prone nuclear technologies are all on the table—nor the threat of further sanctions seems to give Iran pause. It resents being in the UN's sin-bin, but not enough to give up on enrichment. Is there nothing that might persuade it to come to the negotiating table?

One idea to defuse the gathering crisis, pushed for some time by the IAEA's boss, Mohamad ElBaradei, is to let Iran continue its enrichment activities, but on a limited scale and under strict safeguards so that the uranium produced cannot be diverted to military use. By now, he says, Iran has mastered many of the enriching skills it needs; continuing to insist on shutting down Natanz misses the point. What is important is to keep Iran in the NPT and inspectors in the country.

The technical flaw in Mr ElBaradei's logic can be seen from his own inspectors' reports. Though Iran claims to have no interest in a bomb, it has repeatedly refused to come clean about dodgy nuclear experiments concealed for 20 years in flagrant breach of IAEA safeguards, still unexplained traces of highly-enriched uranium (civilian power reactors use the low-enriched sort) and unaccounted-for imports, including of more advanced centrifuges than those spinning at Natanz. The alarming possibility in all this is that Iran has a hidden military programme, not just its known civilian one. Letting it hone its enrichment skills would help any military effort too.

Where exceptions don't prove the rule

Whether or not Iran has a secret bomb project, Mr ElBaradei has his priorities backwards. Why take such risks just to keep Iran in the NPT when Iran's refusal to let the inspectors do their job undermines that very treaty? Giving a nod of approval to activities explicitly ruled out by a string of UN and IAEA resolutions can only damage both organisations—and encourage other unsavoury regimes to follow suit.

Mr ElBaradei is right, however, that time is slipping by. The surest way to end the impasse would be for Iran's uranium and plutonium work to stop and for inspectors to be given the co-operation they need to do their job. Short of that, diplomatically it is back to the UN. But with a necessary difference. More pin-prick sanctions on individuals or companies involved in Iran's nuclear or missile programmes won't get Iran's attention. Any new measures will need to hurt—a lot. Thus far Russia and China have balked at that; some Europeans are squeamish too. But the alternative—Iran smoothly accelerating towards a bomb—is worse.

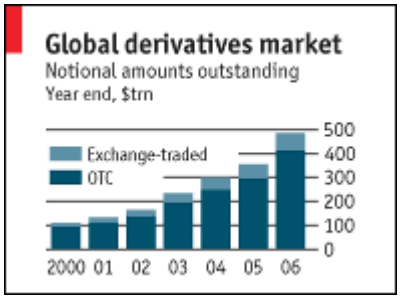
Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Financial exchanges

Making the future

May 24th 2007
From The Economist print edition

Let Chicago's futures exchanges merge, but police them with a stronger regulator



EXCHANGES used to have lively trading floors and sleepy managers. These days it is the other way round. Computers and the switch from mutual to for-profit status have left the floors quieter (it is all done electronically), but stirred competitive spirits to an extent unimaginable only a few years ago.

Nowhere is this clearer than in the struggle for control of the Chicago Board of Trade (CBOT), America's oldest futures exchange. This pits the giant Chicago Mercantile Exchange (CME), which launched a friendly offer for its cross-town rival last October, against a younger interloper, the Atlanta-based IntercontinentalExchange, or ICE. Behind this battle lies another one, in which the CME's competitors are fighting to persuade trustbusters that its bid, if successful, would create a monopolistic monster, whereas the exchange insists that the deal is about staying ahead of the pack, not price-gouging.

On the face of it, there is plenty of reason to worry. With the CBOT under its wing, the CME would hold 85% of the market for exchange-traded futures contracts in America; the ICE combination would have only 33%. With such a dominant market share, what would stop the CME from hiking prices at will?

That is an alarming question in a business in which new entrants struggle. True, in bog-standard equities anyone with a few million dollars and smart programmers can set up a network and take on the exchanges (see article). But the obstacles are higher in futures, where bourses own many of their contracts. The Chicago exchanges easily saw off Eurex, a German-Swiss derivatives-exchange company, when it took them on a few years back. Running your own clearing house, as the CME does, gives you a tight grip on contracts.

This is a genuine worry. Even so, the trustbusters should stay their hand. One reason is that competition to create and trade new futures products is fiercer than ever. The market has grown spectacularly in recent years, largely thanks to breakneck innovation. Hedge funds have a bottomless appetite for derivatives as a way to manage risk and punt with borrowed money. And whereas growth in share trading is constrained by the number of firms listed on exchanges, derivatives come in endless varieties. ICE's rise is proof that upstarts can break into difficult markets. It took advantage of Nymex's delay in moving to screen-based trading to grab almost a third of its crude-oil futures business. That galvanised the industry, forcing Nymex to speed up its embrace of electronic trading.

Increased size benefits users. If they get to merge, the CME and CBOT expect to save 18% of their combined costs. Brokers may see some of this as lower costs or better services—which is why many of them back the deal. Sensibly, America's antitrust authorities, unlike their European counterparts, take account of benefits like these when weighing mergers. In any case, even as the CME has grown rapidly in recent years, it has steadily lowered the average fee it charges per contract.

This decline reflects an intensification—and globalisation—of competition. The American exchanges' share of the futures industry has tumbled since the mid-1980s as European and Asian rivals have got their acts together. Stock exchanges around the world are pushing into derivatives, too. It no longer makes sense to look at the American market alone when rooting out monopolists.

Nor is definition merely a question of geography. The CME argues, correctly, that it competes not only against other exchanges but also with the vast “over-the-counter” markets, where derivatives are traded privately. For almost every exchange-traded offering, comparable off-exchange products are available. The boundaries between the two are becoming blurred, as bourses offer centrally cleared markets in foreign exchange and swaps. Factor in products traded off exchanges, and the exchanges' total market

share falls below 20%.

Regulator, heal thyself

So the Department of Justice should wave the merger through, while keeping the right to interfere if the colossus is poorly policed. Worryingly, the Commodity Futures Trading Commission, which regulates America's derivatives exchanges, lacks the power and the resources to do this. Its budget has risen far more slowly than the markets it oversees, leaving it woefully understaffed. And it lacks teeth, thanks to reforms in 2000 that gave exchanges a lot more scope to set their own rules.

The danger of “regulatory capture”—a weak regulator in the pocket of the industry giant—is clear. But that is no excuse to stop the merger. The government should strengthen its own house, not refuse to let business people extend theirs.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

America's proposed immigration reform

Better than nothing

May 24th 2007
From The Economist print edition

But not much. And an already flawed bill could yet get worse

AP

Get article background

EVERYONE seems to hate America's latest stab at immigration reform, which went before the full Senate this week. Immigrant groups think it offers little hope to low-skilled, mostly Hispanic would-be migrants. Right-wingers snarl that it is nothing but an “amnesty” for illegals. Companies, who it had been hoped would support the new compromise, hate it because it imposes bureaucratic burdens on employers. And the left is complaining because it fears it will depress low-end wages. It would be nice to be able to report that opposition across so full a spectrum is a sign that the bill is a well-crafted compromise. In fact, it may well turn out to be doomed.

That would be a pity, because there are some good things in the proposal (see article). Most important, it produces a reasonably fair solution to the problem of what to do about the 12m or so illegal immigrants already in America, most of them working hard at low-paid and disagreeable jobs. Deporting a population the size of Ohio's is impossible, economically illiterate and morally wrong. The new bill would make the 12m legal, and offer them a path, albeit a tortuous and vindictive one (who, other than the airline industry, gains from forcing people to return home for an interview?), to full citizenship.

The right doesn't like this, of course, and points out that amnesties (which this really isn't, given the fines and hurdles involved) have in the past drawn fresh waves of migrants. So the other side of the bargain gives conservatives everything they could wish for in terms of razor-wired fences, surveillance drones, armed border guards and a programme that will force companies to check the legality of their workers. Such measures are probably necessary to win support and rebuild trust in the immigration system. No bill would pass without them.

The bad part of the deal is what happens to would-be immigrants once all those sensors and spy-planes are in place. The bill proposes a dual system. A guest-worker programme would allow 400,000 people a year to enter the country to work for two years, after which they must go home for a year, with a six-year cap on the total time they can spend in America. The other part is a new method of granting residence permits, carrying the right to work. Such “green cards” currently go mostly to relatives of American citizens or to people sponsored by an employer. The bill would bring in a “points” system for 380,000 people a year, similar to those in use in Canada and Australia. Permits for family members would be restricted, to cover only spouses and young children. Employers would have less ability to sponsor the people they need.

There are several problems. One is that extended families help build vibrant communities in a way that guest workers don't. Second, the government should not be in the business of telling companies whom

they ought to hire. There are ways round this, such as awarding points not for specific jobs, but for “in-demand” professions and leaving the statisticians to find out what the market wants; the Senate bill does do this to an extent. But the snag is that most of the green cards will be hoovered up by Indian software designers, Bosnian engineers or the similarly blessed. America does indeed need such folk: its skills shortage is a significant constraint on its economy, and an invitation for firms to outsource jobs, so moving to a points system needs to be part of a solution. But it also needs legions of the less-skilled, too. Tweak the system as you will, any merit-based system will inevitably leave poorly educated young Mexicans as guest workers, not green-card holders.

That will continue to mean a large, poorly paid and constantly rotating alien underclass with little stake in American society. Nor, in all likelihood, will there be enough of them: on May 23rd, the Senate voted to scale the guest worker programme back to 200,000. So the illegals will keep coming—except that now their journey will be still more dangerous and they will be even further beyond the law. The current bill is better than nothing; but unless it is improved (the opposite looks likely, given the difficulties the proposal is in), it will not solve the main problem of the illegals.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

British schools

The S-word

May 24th 2007
From The Economist print edition

An elite education should be open to all who can benefit, not just those who can pay

Report Digital

Get article background

NO exam question is as perplexing as how to organise schools to suit the huge variety of pupils they serve: rich and poor, clever and dim, early developers and late starters. Every country does it differently. Some try to spot talent early. Others winnow out the academic-minded only at 18. Some believe in parent-power. Others trust the state. Finland has state-run uniform comprehensives; Sweden, another good performer, has vouchers and lots of private schools.

The British system produces some world-class high-flyers, mainly in its private schools and the 164 selective state “grammar” schools that survived the cull in the 1960s and 1970s when the country moved to a non-selective system. But it serves neither its poor children nor its most troublesome ones well. The best state schools, especially the grammar schools, are colonised by the middle classes, and the whole system is disfigured by a long straggling tail of non-achievers.

Last week David Willetts, the Conservative education spokesman, set out what the Tories would do to rectify these failings. He said a lot of sensible things about freeing up the supply side in education and opening lots more independent state schools in poor areas. But the headlines came from his announcement that if the Tories came to power, they would open no more of their cherished grammar schools: in his view, they are no longer a ladder for the poor but bright.

In political terms, the move seemed an odd mixture of bravery (reacting to statistical evidence, caring about social mobility) and cynicism (despite now thinking that selection is a bad idea, the Tories will keep the existing grammar schools and their middle-class votes). Either way, it was a mistake: selection—and, yes, even elitism—are useful.

This paper has long argued that competition and freedom in education, as elsewhere, are the way to encourage innovation and raise standards for all. Parents should choose schools, and money follow the student, with more cash following the poorest and those who are hardest to teach. As for schools, they should have as much freedom as possible to decide what sort of school they want to be. The government should set some standards, measure exam results and so on; but parents, not bureaucrats, should decide which schools survive.

However, if parents choose schools, then schools must choose pupils, at least when too many apply to

the same ones. Selection is not just inevitable in a system that fosters choice; it also has benefits. Grammar-school pupils do better in exams by half a grade on average—and a full grade if they come from poor families. Such a leg-up is good not just for the children enjoying those benefits but also for the country. Britain needs an elite—brilliant linguists, mathematicians, scientists, engineers—to compete with countries that focus more on excellence than egalitarianism. Restricting excellence just to those whose parents can afford to pay for it cannot make sense.

Free up supply, don't limit demand

The old argument against the grammar-school system was that by selecting the brightest it condemned the masses to the scrapheap. But the point of a market is that competition brings innovation. If decisions on how to select pupils were really delegated to schools, some would undoubtedly offer a highly academic education to those with the ability to thrive on it. Others would specialise in music, or fine arts, or technical subjects—or, indeed, children who are hard to teach (especially if the latter came with the most state money). This point helps answer another longstanding concern—that, by creaming off the brightest, grammar schools are short-changing the average child, who loses the benefit of their company. That would be less of a worry if the alternatives to a highly academic education also become more attractive.

The new concern, rightly raised by the Tories, is that grammar schools no longer help enough clever poor children. Mr Willetts worries about meritocracy. Here his diagnosis seems right, but his remedy wrong. With richer parents coaching their children furiously, the few grammar schools that remain are largely middle-class enclaves: only 2% of their students are entitled to free school meals, compared with 12% in their local areas. This is indeed a shocking figure. But it is surely an argument for better early teaching for poor children or building more selective secondary schools, not an argument to abandon even that 2% by banning academic selection.

Social mobility is a good thing, and the Tories are right to want to foster it. But so is an elite. After all, there's not much point in moving upwards if there's nowhere to go.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

On America's political system, Dow Jones, Nigeria, wireless networks, Tony Blair

May 24th 2007
From The Economist print edition

The Economist, 25 St James's Street, London SW1A 1HG
FAX: 020 7839 2968 E-MAIL: letters@economist.com

To the manor born

SIR – Lexington mused over the fondness that Americans have developed for monarchy, but glossed over the fact that it is America's own political system that has given the White House its "air of royalty" (May 12th). The biggest difference between parliamentary systems and American-style presidential systems is that the former are based around robust political parties that are the proving grounds for testing, developing and supporting political leadership. America's system, with its comparatively weak and diffuse party structure, is increasingly a "celebrity" based model, in which each presidential candidate has to create his or her own personal political party for fund-raising, advisers, etc.

In such a personality-driven system, a candidate's family members already have the advantage of name recognition that helps them raise money if they choose to run. They can also rely on the coterie of friends and advisers to the family that has been built up by previous campaigns. George Bush is the classic example of this. In 2000 more attention was paid to his inheritance of the Bush family mantle than on his meagre record as governor of Texas. Today, the celebrity factor dominates the current primary campaigns, with the media focusing on personalities and paying little attention to substantive policy issues.

David Austin
Austin, Texas

Editorial decisions

SIR – You made a persuasive case in favour of Rupert Murdoch's bid for Dow Jones ("A race to the top", May 5th). But your contention that he would maintain the *Wall Street Journal*'s high standards of reporting, because in the "financial newspaper business, that is how you make money", is naive. The *Journal* is more than a "financial newspaper"; its readers rely on it as a responsible source of news on weighty subjects that have little to do with finance. Mr Murdoch's record indicates he would be reluctant to allow its news pages or editorial columns to publish views that might cause discomfort with advertisers or jeopardise relations with those in government whom he thinks would best further his interests.

Mack Stewart
Higganum, Connecticut

SIR – Although you denigrated the objectivity of "pro-Republican" Fox News for being "as convincing as an anchorman's suntan", you ignored the fact that most Americans like it precisely because it is Republican-friendly. Yes, it is a mouthpiece for conservative views, but this provides a real alternative to the unrelenting liberal/Democratic slant from the likes of ABC, NBC and CBS, not to mention the taxpayer-subsidised PBS. Television news outfits, like their cousins in print, are businesses first. Fox News has supplied a neglected market with a quality product, and has succeeded handsomely. Perhaps we will reach the ideal of "fair and balanced" reporting when the other networks are referred to as the "pro-Democratic NBC, CBS, etc". But only a fool really believes in objective journalism any more, if it ever actually existed in the first place.

James Thornberry
Hampton, Virginia

Aiding, and abetting

SIR – Nigeria's descent into brazen electoral fraud bodes badly for Africa as a whole ("Big men, big fraud and big trouble", April 28th). Corruption is still the single greatest impediment to the continent's development. I have campaigned for 20 years to try to persuade the Irish government to end their practice of routing aid money bilaterally through African regimes such as Ethiopia and Uganda which, like Nigeria's regime, allocate a low priority to the well-being of their people.

Although Nigeria appears to have made tremendous economic leaps in recent years, corruption is the foremost reason that, as you pointed out, "it has made little visible difference to Nigerians' wretched daily lives." If Africa is to extricate itself from the mire of poverty, corruption must be weeded out from every facet of its society. And it is the responsibility of the developed world to ensure that its billions of aid dollars are spent responsibly, and not merely to pay for more government jets.

John O'Shea
GOAL UK
London

Data bytes

SIR – Your survey on wireless networks confused the microprocessor with the integrated circuit (April 28th). Depending on how one defines a microprocessor, claims for the first such device fall in a chronology between 1971 and 1976. The 1958 date you cited is for a simpler integrated circuit performing basic logic functions.

Loring Wirbel
Colorado Springs, Colorado

SIR – Neither sound nor cosmic rays are composed of "radio waves". From what I remember about high school physics, sound travels through air by virtue of pressure fluctuations; and cosmic rays are subatomic particles.

Konrad Schmidt
Melbourne

Small consolation

SIR – Your analysis of Tony Blair's record as prime minister stated that "peace in Ulster must rank among [his] greatest successes" ("How will history judge him?", May 12th). That Northern Ireland is now governed by a conservative religious extremist and an unrepentant former terrorist leader would seem little cause for celebration. The province's working-class communities are as deeply sectarian as ever, the difference now being—thanks to the prisoner-release scheme—that more paramilitary criminals are present in their neighbourhoods. In other circumstances, Mr Blair has rightly championed liberal, pluralist views, and castigated those who would use violence to undermine the British state and intimidate its citizens. His legacy in Northern Ireland is not peace, but a shabby, politically expedient settlement that mocks justice and condemns another generation to the spectre of sectarian strife and thuggery.

Tanya Reeves
London

SIR – Mr Blair was "perhaps the most natural persuader to have occupied the country's highest office since universal suffrage was introduced in 1928" ("The great performer leaves the stage", May 12th)? What about Winston Churchill? As prime minister he persuaded the British nation to continue to do battle against incredible odds.

Earl McMillin
Cape Canaveral, Florida

SIR – He helped bring about the English state, the Royal Navy and English universities. He translated Pope Gregory's "Pastoral Care", Orosius's universal history, Bede's "Ecclesiastical History" and Boethius's "Consolation of Philosophy". He was, in short, England's most influential and most learned monarch. Yet today King Alfred is remembered chiefly for burning some cakes. History can be fickle when it comes to legacies. Maybe Mr Blair will be remembered mostly for the phrase "the people's princess" or for being a wannabe rock musician turned politician.

Tony Thomas
Crickadarn, Powys

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Marriage in America

The frayed knot

May 24th 2007 | MORGANTOWN, WEST VIRGINIA
From The Economist print edition

SKC

As the divorce rate plummets at the top of American society and rises at the bottom, the widening "marriage gap" is breeding inequality

THE students at West Virginia University don't want you to think they take life too seriously. It is the third-best "party school" in America, according to the Princeton Review's annual ranking of such things, and comes a creditable fifth in the "lots of beer" category. Booze sometimes causes students' clothes to fall off. Those who wake up garmentless after a hook-up endure the "walk of shame", trudging back to their own dormitories in an obviously borrowed football shirt, stirring up gossip with every step.

And yet, for all their protestations of wildness, the students are a serious-minded bunch. Yes, they have pre-marital sex. "I don't see how it's a bad thing," says Ashley, an 18-year-old studying criminology. But they are careful not to fall pregnant. It would be "a major disaster," says Ashley. She has plans. She wants to finish her degree, go to the FBI academy in Virginia and then start a career as a "profiler" helping to catch dangerous criminals. She wants to get married when she is about 24, and have children perhaps at 26. She thinks having children out of wedlock is not wrong, but unwise.

A few blocks away, in a soup kitchen attached to a church, another 18-year-old balances a baby on her knee. Laura has a less planned approach to parenthood. "It just happened," she says. The father and she were "never really together", merely "friends with benefits, I guess". He is now gone. "I didn't want to put up with his stuff," she says. "Drugs and stuff," she adds, by way of explanation.

There is a widening gulf between how the best- and least-educated Americans approach marriage and child-rearing. Among the elite (excluding film stars), the nuclear family is holding up quite well. Only 4% of the children of mothers with college degrees are born out of wedlock. And the divorce rate among college-educated women has plummeted. Of those who first tied the knot between 1975 and 1979, 29% were divorced within ten years. Among those who first married between 1990 and 1994, only 16.5% were.

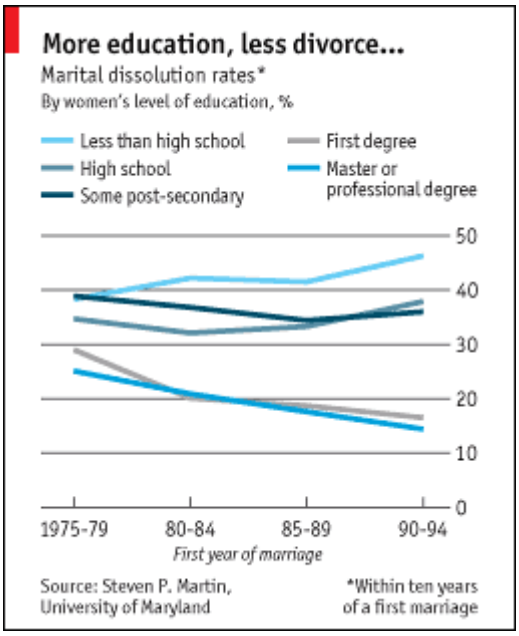
At the bottom of the education scale, the picture is reversed. Among high-school dropouts, the divorce rate rose from 38% for those who first married in 1975-79 to 46% for those who first married in 1990-94. Among those with a high school diploma but no college, it rose from 35% to 38%. And these figures are only part of the story. Many mothers avoid divorce by never marrying in the first place. The out-of-wedlock birth rate among women who drop out of high school is 15%. Among African-Americans, it is a

staggering 67%.

Does this matter? Kay Hymowitz of the Manhattan Institute, a conservative think-tank, says it does. In her book “Marriage and Caste in America”, she argues that the “marriage gap” is the chief source of the country's notorious and widening inequality. Middle-class kids growing up with two biological parents are “socialised for success”. They do better in school, get better jobs and go on to create intact families of their own. Children of single parents or broken families do worse in school, get worse jobs and go on to have children out of wedlock. This makes it more likely that those born near the top or the bottom will stay where they started. America, argues Ms Hymowitz, is turning into “a nation of separate and unequal families”.

A large majority—92%—of children whose families make more than $75,000 a year live with two parents (including step-parents). At the bottom of the income scale—families earning less than $15,000—only 20% of children live with two parents. One might imagine that this gap arises simply because two breadwinners earn more than one. A single mother would have to be unusually talented and diligent to make as much as $75,000 while also raising children on her own. And it is impossible in America for two full-time, year-round workers to earn less than $15,000 between them, unless they are (illegally) paid less than the minimum wage.

But there is more to it than this. Marriage itself is “a wealth-generating institution”, according to Barbara Dafoe Whitehead and David Popenoe, who run the National Marriage Project at Rutgers University. Those who marry “till death do us part” end up, on average, four times richer than those who never marry. This is partly because marriage provides economies of scale—two can live more cheaply than one—and because the kind of people who make more money—those who work hard, plan for the future and have good interpersonal skills—are more likely to marry and stay married. But it is also because marriage affects the way people behave.



American men, once married, tend to take their responsibilities seriously. Avner Ahituv of the University of Haifa and Robert Lerman of the Urban Institute found that “entering marriage raises hours worked quickly and substantially.” Married men drink less, take fewer drugs and work harder, earning between 10% and 40% more than single men with similar schooling and job histories. And marriage encourages both spouses to save and invest more for the future. Each partner provides the other with a form of insurance against falling sick or losing a job.

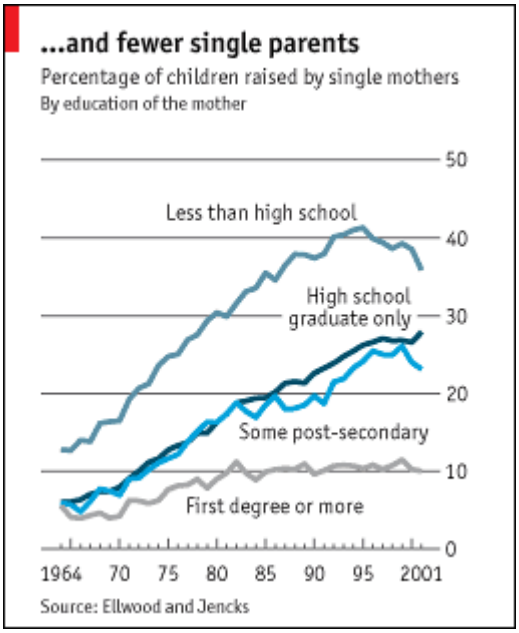
Marriage also encourages the division of labour. Ms Dafoe Whitehead and Mr Popenoe put it like this: “Working as a couple, individuals can develop those skills in which they excel, leaving others to their partner.” Mum handles the tax returns while Dad fixes the car. Or vice versa. As Adam Smith observed two centuries ago, when you specialise, you get better at what you do, and you produce more.

Perhaps the most convincing work showing that marriage is more than just a piece of paper was done by Mr Lerman of the Urban Institute. In “Married and Unmarried Parenthood and Economic Wellbeing”, he addressed the “selection effect”—the question of whether married-couple families do better because of the kind of people who marry, or because of something about marriage itself.

Using data from a big annual survey, he looked at all the women who had become pregnant outside marriage. He estimated the likelihood that they would marry, using dozens of variables known to predict this, such as race, income and family background. He then found out whether they did in fact marry, and what followed.

His results were striking. Mothers who married ended up much better off than mothers with the same disadvantages who did not. So did their children. Among those in the bottom quartile of “propensity to marry”, those who married before the baby was six months old were only half as likely to be raising their children in poverty five years later as those who did not (33% to 60%).

Changes in family structure thus have a large impact on the economy. One of the most-cited measures of prosperity, household income, is misleading over time because household sizes have changed. In 1947, the average household contained 3.6 people. By 2006, that number had dwindled to 2.6. This partly reflects two happy facts: more young singles can afford to flee the nest and their parents are living longer after they go. But it also reflects the dismal trend towards family break-up. A study by Adam Thomas and Isabel Sawhill concluded that if the black family had not collapsed between 1960 and 1998, the black child-poverty rate would have been 28.4% rather than 45.6%. And if white families had stayed like they were in 1960, the white child poverty rate would have been 11.4% rather than 15.4%.



Children of the sexual revolution

Since the 1960s, the easy availability of reliable contraception has helped to spur a revolution in sexual mores. As opportunities for women opened up in the workplace, giving them an incentive to delay child-bearing, a little pill let them do just that without sacrificing sex. At the same time, better job opportunities for women changed the balance of power within marriage. Wives became less economically dependent on their husbands, so they found it easier to walk out of unhappy or abusive relationships.

As the sexual revolution gathered steam, the idea that a nuclear family was the only acceptable environment in which to raise a child crumbled. The social stigma around single motherhood, which was intense before the 1960s, has faded. But attitudes still vary by class.

College-educated women typically see single motherhood as a distant second-best to marriage. If they have babies out of wedlock, it is usually because they have not yet got round to marrying the man they are living with. Or because, finding themselves single and nearly 40, they decide they cannot wait for Mr Right and so seek a sperm donor. By contrast, many of America's least-educated women live in neighbourhoods where single motherhood is the norm. And when they have babies outside marriage, they are typically younger than their middle-class counterparts, in less stable relationships and less prepared for what will follow.

Consider the home life of Lisa Ballard, a 26-year-old single mother in Morgantown. She strains every nerve to give her children the best upbringing she can, while also looking for a job. Her four-year-old son Alex loves the Dr Seuss book “Green Eggs and Ham”, so she reads it to him, and once put green food colouring in his breakfast eggs, which delighted him. But the sheer complexity of her domestic arrangements makes life “very challenging”, she says.

She has four children by three different men. Two were planned, two were not. Two live with her; she has shared custody of one and no custody of another. One of the fathers was “a butthole” who hit her, she says, and is no longer around. The other two are “good fathers”, in that they have steady jobs, pay maintenance, make their children laugh and do not spank them. But none of them still lives with her.

Miss Ballard now thinks that having children before getting married was “not a good idea”. She says she would like to get married some day, though she finds the idea of long-term commitment scary. “You've got to definitely make sure it's the person you want to grow old with. You know, sitting on rocking chairs giggling at the comics. I want to find the right one. I ask God: ‘What does he look like? Can you give me a little hint?’”

If she does find and wed the man of her dreams, Miss Ballard will encounter a problem. She has never seen her own father. Having never observed a stable marriage close-up, she will have to guess how to make one work. By contrast, Ashley, the criminology student at the nearby university, has never seen a divorce in her family. This makes it much more likely that, when the time is right, she will get married and stay that way. And that, in turn, makes it more likely that her children will follow her to college.

Most children in single-parent homes “grow up without serious problems”, writes Mary Parke of the Centre for Law and Social Policy, a think-tank in Washington, DC. But they are more than five times as likely to be poor as those who live with two biological parents (26% against 5%). Children who do not live with both biological parents are also roughly twice as likely to drop out of high school and to have behavioural or psychological problems. Even after controlling for race, family background and IQ, children of single mothers do worse in school than children of married parents, says Ms Hymowitz.

Children whose father was never around face the toughest problems. For those whose parents split up, the picture is more nuanced. If parents detest each other and quarrel bitterly, their kids may actually benefit from a divorce. Paul Amato of Penn State University has found that 40% of American divorces leave the children better (or at least, no worse) off than the turbulent marriages that preceded them. In other cases, however, what is good for the parents may well harm the children. And two parents are likely to be better at child-rearing because they can devote more time and energy to it than one can.

Research also suggests that middle- and working-class parents approach child-rearing in different ways. Professional parents shuttle their kids from choir practice to baseball camp and check that they are doing their homework. They also talk to them more. One study found that a college professor's kids hear an average of 2,150 words per hour in the first years of life. Working-class children hear 1,250 and those in welfare families only 620.

Co-habiting couples have the same number of hands as married couples, so they ought to make equally good parents. Many do, but on average the children of co-habiting couples do worse by nearly every measure. One reason is that such relationships are less stable than marriages. In America, they last about two years on average. About half end in marriage. But those who live together before marriage are more likely to divorce.

Many people will find this surprising. A survey of teenagers by the University of Michigan found that 64% of boys and 57% of girls agreed that “it is usually a good idea for a couple to live together before getting married in order to find out whether they really get along.” Research suggests otherwise. Two-thirds of American children born to co-habiting parents who later marry will see their parents split up by the time they are ten. Those born within wedlock face only half that risk.

The likeliest explanation is inertia, says Scott Stanley of the Centre for Marital and Family Studies at the University of Denver, Colorado. Couples start living together because it is more fun (and cheaper) than living apart. One partner may see this as a prelude to marriage. The other—usually the man—may see it as something more temporary. Since no explicit commitment is made, it is easier to drift into living together than it is to drift into a marriage. But once a couple is living together, it is harder to split up than if they were merely dating. So “many of these men end up married to women they would not have married if they hadn't been living together,” says Mr Stanley, co-author of a paper called “Sliding versus deciding”.

A little help from the government

Most American politicians say they support marriage, but few do much about it, except perhaps to sound off about the illusory threat to it from gays. The public are divided. Few want to go back to the attitudes or divorce laws of the 1950s. But many at both ends of the political spectrum lament the fragility of American families and would change, at least, the way the tax code penalises many couples who marry. And some politicians want the state to draw attention to benefits of marriage, as it does to the perils of smoking. George Bush is one.

Since last year, his administration has been handing out grants to promote healthy marriages. This is a less preachy enterprise than you might expect. Sidonie Squier, the bureaucrat in charge, does not argue that divorce is wrong: “If you're being abused, you should get out.” Nor does she think the government should take a view on whether people should have pre-marital sex.

Her budget for boosting marriage is tiny: $100m a year, or about what the Defence Department spends every two hours. Some of it funds research into what makes a relationship work well and whether outsiders can help. Most of the rest goes to groups that try to help couples get along better, some of which are religiously-inspired. The first 124 grants were disbursed only last September, so it is too early to say whether any of this will work. But certain approaches look hopeful.

One is “marriage education”. This is not the same as marriage therapy or counselling. Rather than

waiting till a couple is in trouble and then having them sit down with a specialist to catalogue each other's faults, the administration favours offering relationship tips to large classes.

The army already does this. About 35,000 soldiers this year will get a 12-hour course on how to communicate better with their partners, and how to resolve disputes without throwing plates. It costs about $300 per family. Given that it costs $50,000 to recruit and train a rifleman, and that marital problems are a big reason why soldiers quit, you don't have to save many marriages for this to be cost-effective, says Peter Frederich, the chaplain in charge.

Several studies have shown that such courses do indeed help couples communicate better and quarrel less bitterly. As to whether they prevent divorce, a meta-analysis by Jason Carroll and William Doherty concluded that the jury was still out. The National Institutes of Health is paying for a five-year study of Mr Frederich's soldiers to shed further light on the issue.

Americans expect a lot from marriage. Whereas most Italians say the main purpose of marriage is to have children, 70% of Americans think it is something else. They want their spouse to make them happy. Some go further and assume that if they are not happy, it must be because they picked the wrong person. Sometimes that is true, sometimes not. There is no such thing as a perfectly compatible couple, argues Diane Sollee, director of smartmarriages.com, a pro-marriage group. Every couple has disputes, she says. What matters most is how they resolve them.

At the end of the day, says Ms Squier, the government's influence over the culture of marriage will be marginal. Messages from movies, peers and parents matter far more. But she does not see why, for example, the government's only contact with an unmarried father should be to demand that he pay child support. By not even mentioning marriage, the state is implying that no one expects him to stick around. Is that a helpful message?

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Israel and the Palestinians

Forty years on

May 24th 2007 | JERUSALEM
From The Economist print edition

Getty Images

The aftermath of the war of 1967 has been a story of squandered opportunities and deepening divisions among Israelis and Palestinians alike

WITH the damp of a rainstorm still hanging in the evening air, a human wave bore down on Jerusalem's old city from the west, engulfing the cool stone walls in a blue-and-white sea. Chanting, dancing and waving flags, thousands of young Israelis celebrated the capture of the ancient capital with a symbolic re-enactment—flowing through its narrow alleys towards the Western Wall, as Israeli troops did on June 7th 1967.

May 16th, the day that the “reunification” of Jerusalem fell this year by the Jewish calendar, was the day Israel marked the 40th anniversary of its greatest ever military victory, when it crushed three Arab armies and took control of nearly three times its own landmass in just six days. Like those conquering troops, this year's rejoicers wore a uniform, albeit of a different kind: casual clothes and skullcaps for the men, long skirts for the women. Other than religious Zionists, that subset (about a fifth) of Israeli Jews who believe that settling as much as possible of “Greater Israel” is a religious duty, few Israelis today think that Israel's finest hour left it with a lot worth celebrating. Many of the rest are as likely to see its capture of land and subsequent occupation as a tragedy for Israel.

The Palestinians who watched the march quietly from the sidelines, kept at a safe distance by police, have had still more cause to mourn. Just as the war made Jews the world over feel vindicated after 19 years of precarious statehood, the reunification of historic Palestine—Israel, Gaza and the West Bank—under Israeli rule seemed to give the Palestinians a chance to get their own struggle for a state back on track. Yet since then both societies have fractured to the point that their internal conflicts sometimes eclipse the one they have with the other side. And in the meantime a dispute over land has acquired the harsh absolutes of a religious conflict.

Many of the participants, historians now argue, were reluctant to go to war. Israel's leaders did not then believe in the doctrine of “strategic depth”, protection through holding more territory; that came later. Gamal Abdel Nasser, the Egyptian president, had been cranking up the rhetoric about destroying Israel in an effort to maintain his position as a “pan-Arab” leader, but in reality kept warning his allies that Israel was still too strong to be attacked. Jordan's King Hussein had held secret talks with Israeli officials, who felt it in their interest to prop up his regime.

The main tensions were with Syria, which competed with Israel for the scarce waters of the Jordan river and supported raids on it by Palestinian guerrilla movements. Among these was the Fatah organisation,

headed by a young engineer called Yasser Arafat, who argued that what would liberate Palestine was not Arab government talking-shops—such as the puppet Palestine Liberation Organisation (PLO) that the Arab League had created in 1964—but an armed struggle waged by the Palestinians themselves. The Israeli army under its hot-headed chief of staff, Yitzhak Rabin, also deliberately provoked the Syrians in an escalating series of clashes, and at one point Israel threatened to invade.

Syria appealed to Nasser, who had signed a defence pact with it. He ordered troop deployments in the Sinai and closed the Red Sea to Israeli shipping, hoping that this would get his allies off his back. Instead, it pushed Israel into launching a pre-emptive strike. Even so, Levi Eshkol, the prime minister, opposed it for two weeks. He caved in to pressure from the army only after a threat by some parties to quit the governing coalition forced him to bring the hawkish Moshe Dayan (pictured above) on board as defence minister.

Reading the historical accounts today, one wonders what the government commission that recently slammed Israeli politicians and generals for their rashness in launching last summer's war in Lebanon would have made of 1967. It was a war prompted by a gung-ho military (see article), a misreading of the enemy's intentions and political expediency; a huge gamble that stretched Israel's forces to the very limit, and could have destroyed the country had it failed.

No wonder Israelis were relieved and proud. But their feelings went deeper. The Holocaust had left many Jews with a crisis of faith: how could a caring God allow such a tragedy? The triumph in 1967 gave them reason to believe again. “For Jewry to be envied: that is a change indeed,” concluded *The Economist*'s dispatch from Jerusalem that week (see article).

The fact that the West Bank was home to the major biblical sites—the old city of Jerusalem, the tomb of the patriarchs in Hebron, Rachel's tomb in Bethlehem—added to the sensation of a divine guiding hand. “Der Judenstaat”, the seminal tract by Theodor Herzl, the father of Zionism, is usually mistranslated as “The Jewish State” rather than “The Jews' State”, but now the mistranslation became apt. In the words of Michael Oren, an Israeli historian, the war “confronted the state of Israel with its Jewishness”.

That gave religious Zionism new credibility. Young idealists went out to the West Bank to put up impromptu settlements, which the army at first dismantled. But the rest of the country's interests quickly fell into line with theirs. The West Bank offered aquifers and made a good security buffer; it and the Gaza Strip provided cheap Palestinian labour and housing land; and building new Jewish neighbourhoods around East Jerusalem was a way for Israel to consolidate its hold on the holy city. It was two decades before the first Palestinian uprising, or *intifada*, made mainstream Israelis question the wisdom of holding on to the occupied territories.

For some Palestinians, meanwhile, 1967 seemed like a gift. Palestinians in Israel, Gaza and the West Bank could suddenly meet again after 19 years apart, although the million or so refugees outside were now cut off from them. It was easier to campaign against occupation by the Zionist enemy than by their Arab brethren. Moreover, Nasser had used the Palestinians' plight as a convenient rallying-cry to unite the Arab world around his leadership. The war's abject failure discredited pan-Arabism, allowing Arafat to bring the Palestinian cause itself to centre stage. Soon he was able to take over the PLO and step up the use of direct, violent attacks on Israel, taking Nasser's place as the leader that Arabs everywhere admired.

However, the war had longer-lived repercussions that ultimately made things more complex. One was a wider geopolitical shift. The key to Israel's victory, a massive aerial assault that destroyed the Egyptian air force on the ground, was accomplished with French Mystère and Mirage fighter-bombers. Today the backbone of its combat force is American F-15s and F-16s. Only after the war did the United States sign its first big arms deal with Israel; today it supplies some $2.5 billion a year in military aid. The Soviet Union, on the other hand, cut off ties with Israel and strengthened them with the Arab world. Israel's success also galvanised diaspora Jewry, giving rise to the strong “Jewish lobby” in America and to the “refusenik” movement in the Soviet Union. By turning the refusal of exit visas for Soviet Jews into a political issue, it helped keep Jews there from assimilating. But the cold war, hitherto a fight for influence in Europe and Latin America, had now acquired a Middle Eastern axis, and Jews and Arabs were at its centre.

A second change was that, even as the war proved Israel's military deterrence, it made deterrence obsolete. Instead of tackling Israel head-on, its neighbours concentrated ever more on sponsoring proxies that entangled the army in the terrible complexities of guerrilla warfare, where victory is impossible to define and the combatants are hard to separate from civilians. Israel's last conventional war, and last clear victory (albeit at a heavy cost), was in 1973. Today it fights Iran and Syria through Hizbullah in Lebanon and various militant groups in Gaza. Last summer it launched campaigns on both fronts that killed many hundreds of innocents but could not wipe out the enemy. The idea that “strategic depth” of territory can protect the country has also taken a beating from Saddam Hussein's Scud missiles in the first Gulf war, from Gaza's and Hizbullah's rockets, and now from the impending menace of an Iranian nuclear missile. The army is getting an overhaul after the Lebanon debacle, but even the best-trained army cannot destroy the kinds of threats Israel faces today.

Third, the collapse of pan-Arabism left an ideological vacuum. It was partly filled by political Islamism, with its dream not merely of a single Arab state but of a united Islamic society or *umma*, run along the guidelines of Islamic law. As the new ideology took hold it spun off radical interpretations that came to threaten the region's existing regimes. Iran's Islamic revolution in 1979 was its first notable success. And in 1987 the Muslim Brotherhood's Palestinian franchise was reborn as the Islamic Resistance Movement (Hamas) and began its long path to taking control of the Palestinian cause. Hamas is to the Palestinians what the settlers are to Israel: it believes that the land was consecrated to Muslims by God, and is not negotiable.

Divide and misrule

Forty years of conflict have convinced most Palestinians and Israelis that they are best off separating into two states. Yet they seem incapable of getting there.

Though most Israelis have come to accept that the Palestinians should have independence, most still think they are not automatically entitled to it, but first need to earn it by providing Israeli security. For their part, though most Palestinians are willing to let Israel exist if it leaves them alone, most think armed struggle of some sort is justified as long as it continues to occupy their land and kill suspected militants and innocent bystanders alike. Neither side has ever had a leadership willing to override those views.

In the meantime the Israeli settlements that dot the West Bank like holes in a Swiss cheese keep growing. The measures that protect them from Palestinian extremists, such as special settler-only roads and hundreds of checkpoints and roadblocks, stifle the West Bank's economy and drive even more Palestinians to extremism.

On top of this, the attrition of the conflict has left the two societies deeply divided. On the Israeli side, the chronic instability of the governments elected in its system of proportional representation makes them hostage to minority interests, and the settlers are one of the most determined and organised minorities in the country. Their politicians can forge alliances with other groups, such as the growing ultra-Orthodox factions, who used to be wary of Zionism but are ever more pro-settler, and secular

nationalists, many of whom immigrated from the debris of the Soviet Union and share with the settlers a dislike of Arabs.

Young settlers are just as militant as their parents were a generation ago, setting up small West Bank outposts and resisting their dismantlement in fierce, well-publicised mass protests. Israel's pull-out of the settlements in Gaza in 2005, which seemed at the time to have broken the settlers' spirit, now appears to have left them more united and emboldened. And the interface between ultra-Orthodoxy and religious Zionism has spawned a new breed of young settlers known as *hardal* (a Hebrew acronym that also means “mustard”), who are more fanatical than ever.

Scattered peoples

Population, m

Jewish	
Israel	5.4
Rest of the world	7.5
of which: United States	*5.2*
Palestinian	
Israel	1.4
West Bank	2.4
Gaza Strip	1.4
Rest of the world	4.1
of which: Jordan	*1.8*
other Arab states	*1.5*

Sources: Central Bureau of Statistics; Jewish Virtual Library; UN

On the Palestinian side, the 1967 war laid one slow-burning fuse by cutting off Gaza and the West Bank from the rest of the Arab world. That turned Arafat and his cronies into a leadership in exile. They grew so detached from the Palestinians under Israeli rule that the first *intifada* in 1987 took them completely by surprise. Hamas took advantage to claim some of the credit for that popular uprising. Arafat and company were allowed back after signing the Oslo peace accords with Israel in 1993. But in trying to impose a system of authority based on loyalty to himself, he created a lasting rift in Fatah between his “outside” people and younger local leaders. Corrupt and unpopular, Fatah could not even produce a united list for last year's Palestinian election. That played a large role in Hamas's landslide victory.

To complicate matters further the Oslo accords, which gave the Palestinians in the occupied territories partial autonomy, and the second, much bloodier *intifada* in 2000, which prompted Israel to pull out of Gaza and put up its barrier in the West Bank, have fragmented the Palestinians even more than they were before Israel occupied them. Today Gaza is nearly cut off to visitors, and residents can get in and out only sporadically, via Egypt. Visas for Palestinians outside to visit the West Bank are getting harder to come by. None but a select few from the occupied territories can visit Israel, and Palestinians who live in Israel are finding it increasingly difficult to visit the territories. Those who live in refugee camps in neighbouring countries have always been isolated—they cannot return to Palestine, they are often stateless and their host countries impose a variety of restrictions ranging from the annoying to the oppressive.

That has heightened the differences in Palestinian society. The urban, urbane elite in the West Bank look down on the more Islamist denizens of Gaza and scratch their heads in disbelief at the deadly factional violence there; some still recall with a shudder how a wave of Gazans (“sharks”, as one Ramallah resident calls them) arrived in the West Bank seeking work in the 1990s. The Palestinians in Jerusalem, who have held Israeli residence permits since 1967 but considered themselves a cut above the rest long before that, look down on the occupied ones. The cosmopolitan, progressive Palestinians from northern Israel who hold Israeli citizenship look down on the conservative, clannish Jerusalemites. And everyone else treats the Palestinian-Israelis as suspicious collaborators because their grandparents did not flee in 1948.

Reuters

More divided than ever

Political agendas have diverged too. Hamas is much more powerful in Gaza, and even within Hamas the West Bankers are more willing to hint at a compromise with Israel than the Gazans. Refugees, especially those “outside”, cleave to their “right of return” more fiercely than Palestinians in Palestine. “If they all come here we have a big problem too, not just the Israelis,” confides the (Hamas) mayor of one West Bank town.

Since Arafat's death in 2004, the leadership has fragmented, and not just between Hamas and Fatah. Hamas's exiled chief, Khaled Meshal, is frequently at odds with leaders in Gaza. Meanwhile, as the peace process has faded, Palestinians living in Israel have adopted a more local agenda, campaigning against discrimination that they suffer in the Jewish state, and for an internal right of return to their ancestors' villages that has nothing to do with the return of refugees from abroad.

The general erosion of political authority, especially in Gaza, has created a power vacuum that clan chieftains and criminal bosses have been quick to fill. The lawlessness is fertile soil for *jihadi* extremists. These are anathema to the other Palestinian factions, which do not want to be dragged into the West's war with al-Qaeda. In Gaza such extremist groups are a tiny fringe, often probably no more than façades for criminals. But they have taken a stronger hold in some of the more desperate refugee camps abroad (see article).

War and peace

Today, the most positive spin on the 1967 war is that it paved the way for peace between Israel and its neighbours. Defeat made the Arabs begin to accept that the Jewish state could not be destroyed. The end of the dream of a pan-Arab state forced them to deal with Israel one-on-one. The lands that it had captured gave them something to negotiate over. The return of the Sinai to Egypt in 1982 set the example. Peace with Jordan followed in 1994. Talks with Syria came close to success in 2000. Finally, 35 years after those historic six days, the Arab world did the equivalent of admitting defeat. In 2002 the 22 members of the Arab League offered Israel full normalisation of relations in return for a full withdrawal from the territories captured in 1967, and repeated their offer earlier this year.

But as tends to happen in the Middle East, events had already been overtaken by other events. The Arab League's first offer came at the blood-soaked height of the second *intifada*; its reiteration found both Israeli and Palestinian politics at new lows of divisiveness and desperation. Israel now sees itself as fighting not just 200m Arabs but 1.2 billion Muslims, armed with weapons it cannot resist and an ideology it cannot counter. Palestinians feel that a viable state is practically impossible, so deeply has Israel encroached on their land and dismembered their society. Like many wars, 1967 created opportunities. A shame that everyone has squandered them.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Immigration

Of fences and visas

May 24th 2007 | WASHINGTON, DC
From The Economist print edition

AP

The latest attempt to fix America's broken immigration system has come under attack from all sides

Get article background

WHEN Ted Kennedy gazes from the windows of his office in Boston, he can see the harbour's “Golden Stairs”, where all eight of his great-grandparents first set foot in America. It reminds him, he told his Senate colleagues this week, that reforming America's immigration laws is an “awesome responsibility”. Mr Kennedy is the Democrat most prominently pushing a bipartisan bill to secure the border, ease the national skills shortage and offer a path to citizenship for the estimated 12m illegal aliens already in the country. He has a steep climb ahead of him.

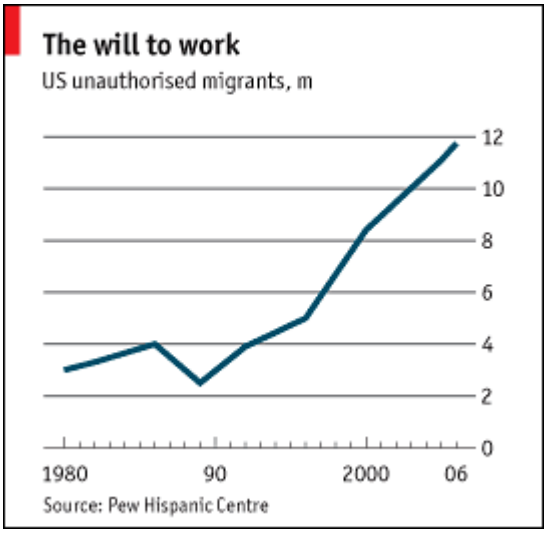
Last year a bill with similar aims was rejected in the House of Representatives by Republicans who thought it too soft on lawbreakers and passed their own, far more restrictive version, resulting in stalemate. This year, with Congress in Democratic hands, Mr Kennedy has been trying again. On May 17th he unveiled a plan he had cooked up with John Kyl, a Republican border-security hawk, and eight other senators. It is tougher than last year's bill on those who cross the border illegally and on those who hire them. George Bush says he will sign it. But first it must pass through Congress, which is trickier than slipping across the Rio Grande.

As drafted, the bill seeks to mend America's broken immigration system in several ways. First, and before its other main provisions come into effect, it would tighten border security. It provides for 200 miles (320km) of vehicle barriers, 370 miles of fencing and 18,000 new border patrol agents. It calls for an electronic identification system to ensure employers verify that all their employees are legally allowed to work. And it stiffens punishments for those who knowingly hire illegals.

For the 12m illegals already in the country (or at least, those who arrived before January 1st 2007), the bill offers an excellent chance to become legal and a convoluted path to citizenship. They would be fingerprinted and given a background check to make sure they have broken no laws besides the immigration rules. They would have to pay a $1,000 fine. They would then be allowed to remain and work in America on a new “Z” visa. They would be allowed to apply for a green card (permanent residence), but family heads would have to go home to lodge the application—though they would then be allowed to return to America while they waited (and would pay another $4,000).

For those already in the queue, the bill calls for shorter waiting times. It promises to process all 4m families who applied before May 2005 within eight years. And it promises, over time, to favour skills more and kinship less. Currently, most green cards go to relatives of American citizens, many of them recently naturalised. Firms that want to hire skilled foreigners with no

family ties find it excruciatingly hard. The quota for temporary visas for such people was only 85,000 this year. Nearly twice as many applied on the first day applications were allowed. The Kennedy-Kyl bill seeks to satisfy some of this pent-up demand by allowing 380,000 permanent merit-based visas a year, using a points system that takes into account job-related skills, education and fluency in English. Family reunification visas will largely be restricted to spouses and children below 18.



Finally, the bill proposes to issue some 400,000 visas a year to temporary workers, who would be allowed to stay for two years at a time, up to three times, with a full year's break between each visit. These would typically be the modestly-educated workers who keep American farms, building sites and restaurants functioning.

As soon as the bill was unveiled, it was stoned from all sides. Nativists, mostly Republicans, denounced it as an “amnesty” that would encourage further waves of illegal immigration. Tom Tancredo, a Republican congressman running for president (without hope of success) on an anti-illegal-immigration platform, demanded that all but the border-security clauses be scrapped. Even these he derided as “so limited it's almost a joke”. Conservative talk-radio echoed his call. No one is seriously proposing mass deportation, but Mr Tancredo says the illegals will all go home if the laws against hiring them are vigorously enforced.

Most labour unions are sceptical, too. The AFL-CIO denounced the guest-worker programme, which it said would give employers “a ready pool of labour that they can exploit to drive down wages, benefits, health and safety protections” for everyone else. Two Democratic senators tried to gut the programme. One failed to abolish it entirely; another succeeded in slashing it from 400,000 to 200,000 people a year.

Employers like the idea of more legal migrants but worry that the new system will be cumbersome. Many object to the idea that they will have to check the immigration status of all their employees. The proposed federal computer system to sort legal from illegal workers is bound to make mistakes. Even if only one employee in a hundred is falsely labelled illegal, that will cause a lot of headaches. And the points system has drawbacks, too. Employers are better placed than bureaucrats to judge which skills are in short supply. That is why the current mess has advantages—illegal immigrants nearly always go where their labour is in demand.

Other groups have complaints, too. Immigrant-rights groups say that the path to citizenship would be too long and arduous and too few Hispanics would qualify. Nancy Pelosi, the Democratic speaker of the House, fretted that the new stress on skills would hurt families, adding that her party is “about families and family values”. Some people worry that House Democrats will kill it to prevent Mr Bush from enjoying a domestic success.

Despite the furore, public opinion favours the underlying principles. At least 60% of Americans want to give illegals a chance to become citizens if they work hard and behave. No final Senate vote is expected for several weeks, and then the House will weigh in. It is a gentler House these days, so the bill still has a chance.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Iraq

Pulling the pull-out

May 24th 2007 | WASHINGTON, DC
From The Economist print edition

Congress and the White House near a compromise on an Iraq spending bill

Get article background

ON MAY 22nd the Democrats dropped the centrepiece of their Iraq policy—the setting of a timetable for withdrawing American troops from Iraq. This was a concession to legislative reality: they only have the slimmest of majorities in the Senate, and Joe Lieberman regularly votes with the president on matters Iraqi. But it was nevertheless a big humiliation for them and a big boost for the president, who is now likely to get $100 billion in additional money for the current year's fighting without surrendering any significant authority to Congress.

The Democrats' retreat came after months of hard pounding over war funding. They responded to Mr Bush's decision early this year to send a “surge” of reinforcements to Iraq by insisting on coupling a timetable for withdrawal to any demand for more money. But Mr Bush threatened to veto any spending bill that contained such a timetable, a threat that he has made good on once already this month, and the Republicans stood solidly behind him. The Democrats were thus faced with an unpalatable choice: starve the troops of funding or cave on the timetable.

Mr Bush's victory shows how much power a president has in wartime, even a deeply unpopular president fighting a deeply unpopular war. Mr Bush has not only stared down his opponents in Congress. He has also distracted them from their ambitious domestic agenda. The Democratic leadership will now face furious recriminations from the party's left, which insists that the November elections gave them a mandate to end the war in Iraq. About 120 Democrats, including Nancy Pelosi, the speaker, could well vote against the bill (the latter presumably only in her personal capacity, though the change of tack was driven by Harry Reid, the majority leader in the Senate). But the bill now has a good chance of going through, particularly given the fact that it is well-larded with domestic pork spending.

For all that, Mr Bush's victory is partial and fleeting. The compromise legislation requires the Iraqi government to show progress in improving security and forging political stability, and forces the president to report to Congress on that progress. Condoleezza Rice, the secretary of state, is trying to negotiate with regional power-players, a central idea in last year's Baker-Hamilton report, and something that Mr Bush originally resisted. And the Republicans, who stood solidly behind Mr Bush throughout the spending row, are still gearing up for a real debate about the war.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

The World Trade Centre

The super cracks it

May 24th 2007 | NEW YORK
From The Economist print edition

At long last, the developer and the insurers reach a deal

Eyevine

“I DON'T think anyone thought it would ever end,” said Eric Dinallo, New York state's insurance superintendent. But it has. In the early hours of May 23rd, seven insurance companies that had been refusing to pay out on claims related to the World Trade Centre site agreed to hand over $2 billion to bring the saga to a close. It was, they said, the largest single settlement in the history of the industry.

The payout will be split between the Port Authority of New York and New Jersey, which owns the site, and Larry Silverstein, its developer, who took over a 99-year lease on its buildings weeks before they were destroyed on September 11th, 2001. The deal resolves all outstanding claims over the attacks and ends more than five years of often ugly legal manoeuvring, during which the insurers accused Mr Silverstein of profiteering and he lambasted them for ducking their duty.

Mr Silverstein had contended that the attacks should be counted as two separate insurance events, entitling him to double the payout. The courts backed him, up to a point: some insurers were told they could treat it as a single incident, others as two events, depending on the phrasing of their policies. Mr Silverstein won a total of $4.68 billion in lawsuits—around two-thirds of what he had sought—but until this week had collected only $2.55 billion.

Though he pronounced himself pleased with this week's deal, he had to make concessions, such as abandoning his claim that the insurers owed more than $500m in interest accrued during the squabble. The insurers, for their part, dropped their insistence that they owed not a penny until the rebuilding was finished, probably in 2012. But it was Mr Dinallo who made it all happen. In March, after taking office, he made it a priority to break the deadlock. Meetings were convened in Delaware, Paris and Geneva, and heads banged together. New York's governor, Eliot Spitzer, helped with a final push.

Mr Spitzer hailed the settlement as being of “monumental importance”. It removes the last big obstacle to redeveloping Ground Zero, and opens the way to issue tax-free bonds and tap other sources of private financing. The entire project is expected to cost at least $9 billion. That will pay for five skyscrapers, shopping areas, a train station (already under construction) and possibly a hotel. The centrepiece will be the much-redrawn Freedom Tower, rising to a symbolic 1,776 feet.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Guantánamo

Easier to open than to close

May 24th 2007
From The Economist print edition

The “legal black hole” defies attacks

AP

Always with us

FOR more than a year, George Bush has been saying that he would like to close America's notorious prison camp for suspected terrorists at Guantánamo Bay, in Cuba. Reports of detainee abuse had damaged America's image abroad, he admitted: “It kind of eased us off the moral high ground.” But other than releasing a few more detainees no longer deemed a threat or of intelligence value, little has been done to meet his avowed aim.

Indeed, the Military Commissions Act, signed into law by Mr Bush in October last year, has further tarnished America's reputation by virtually abolishing the right of any non-American deemed an enemy combatant to challenge his indefinite detention before American courts. In April the Supreme Court declined to hear two separate challenges to the constitutionality of the measure. The pleas argued that it improperly did away with the principle of *habeas corpus*.

On May 17th, two days after Mitt Romney, a Republican presidential hopeful, had called for a doubling of the size of Guantánamo, the House of Representatives narrowly passed (by 220 votes to 208) an amendment to next year's main defence-spending bill which would require the administration to draw up plans to try the detainees, transfer them to other facilities or release them. They would have to do this within 60 days, should the bill become law.

The amendment's Democratic sponsor, Jim Moran, hopes it will be a first step towards the outright closure of a prison that has become “a recruiting tool for extremists” as well as a “stain on our reputation”. But despite Democratic control of Congress, it will not be easy. The House Republican leader, John Boehner, has already objected that the Democrats “are leading us down the road to importing dangerous terrorists into our local communities”, and the White House has threatened to veto any bill that blocks the detention of enemy combatants.

Of the 380-odd detainees still at Guantánamo (nearly 400 have already been released), the Pentagon plans to put only around 75 on trial. Another 80 or so are awaiting transfer to other countries. The administration complains that its allies are not doing enough to help. But those allies wonder why they should accept men, branded as terrorists and embittered by years of harsh detention, that America is unwilling to admit on its own soil. Besides, that still leaves some 200 detainees in a legal limbo, apparently too dangerous to be released, yet not bad enough to stand trial.

Meanwhile, the administration is forging ahead with trials by the new military commissions, which were

set up after last summer's Supreme Court ruling declaring earlier models to be unlawful. Under the new procedure, officials claim, the accused will have the right to represent himself, hear all the evidence against him, cross-examine prosecution witnesses and, if convicted, lodge an appeal all the way up to the Supreme Court. Evidence obtained through torture will be banned. Indeed, according to the officials, the detainees will have all the fundamental guarantees of fairness and due process.

Well, up to a point. In contrast to practice in normal American civilian courts, there will be no limits on hearsay evidence. Evidence obtained by “coercion” will also be permitted. All “classified” evidence, on the other hand, will either be withheld from the defendant entirely or, if used in court, produced only in a heavily “redacted” or censored form. Appeals to an independent court will generally be restricted to questions of whether the final judgment was “consistent with the standards and procedures” applicable to the military commissions, whatever that may mean.

Of the 775 detainees held at Guantánamo since the prison was opened five and a half years ago, only ten have been indicted. Just three now stand charged under the new system. One, David Hicks, a former kangaroo skinner, flew back this week to his native Australia to serve the remaining seven months of his surprisingly lenient nine-month sentence after pleading guilty to providing material support to terrorists. Other, more serious, charges carrying a possible life sentence were dropped after he agreed not to sue his American captors for maltreatment or to talk to the press for one year.

The other two, Omar Khadr, a Canadian accused of killing an American soldier in Afghanistan, and Salim Ahmed Hamdan, Osama bin Laden's former Yemeni driver, are likely to go on trial later this summer. But they are small fry compared with the 15 “high-value” suspects, recently transferred to Guantánamo from secret CIA prisons abroad. They include Khaled Sheikh Mohammed, the self-confessed brain behind some 30 actual or planned terrorist attacks, including those on September 11th 2001, and the Bali bombs of 2002. But these trials are not expected before 2008 at the earliest. Even if acquitted, they may not be released. Guantánamo is unlikely to be closed soon.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Coal

Battle of the mountain tops

May 24th 2007 | CHARLESTON
From The Economist print edition

Why coal is West Virginia's blessing and its curse

COAL has always been a contentious issue in West Virginia. The Battle of Blair Mountain in 1921, a fight over unionisation, pitted an army of 15,000 miners and their families against state and federal troops. It was the only time that the US Air Force has ever been used against the country's own people.

The current rift in the state over coal is rather less violent: nothing worse has happened than the arrest of a few environmentalists. But the state government and the mining companies are once more lined up against a bunch of angry people.

West Virginia is small, poor and remarkably beautiful. It has 1.8m people. With a median household income of $34,000, compared with $44,000 for the country as a whole, it is bottom of the state league. And it lies at the northern end of the wild, wooded Appalachian mountain range.

Aside from scenery, all it has got is coal. West Virginia accounts for around 15% of American coal output. And, right now, coal seems like a good business to be in. High gas prices have turned power utilities away from gas. Worries about energy security have enhanced the attractiveness of domestic energy supplies. There are now around 150 new coal-fired power stations on the drawing board, and interest in the idea of coal gasification and liquefaction—turning coal into gas and liquids for use as vehicle and other fuels—is growing.

For West Virginia, it sounds as though Christmas is coming. Coal liquefaction demands plenty of water, and West Virginia is not short of the stuff. “It's West Virginia's moonshot,” says state senator John Unger. “We've got everything, even the geographical location. We could be a major energy resource for the east coast.”

But not everybody is pleased. Earlier this month environmental groups not just from West Virginia but also from Tennessee and Kentucky turned up in New York to lobby the United Nations to take action against mining practices that they say have damaged the Appalachian range.

Since the most easily accessible coal has been exhausted, companies increasingly resort to blowing up the tops of mountains, knocking off as much as 1,000 feet (300 metres). Environmentalists say the practice has destroyed 500 mountains, as well as covering villages with dust, polluting rivers and killing fish. Judy Bonds, who is descended from ten generations of miners, runs the Coal River Mountain Watch.

She talks of “blackwater spills, thick as pea soup, with great black lumps in them”.

The people who run the state do their best to reconcile these opposing forces. Governor Joe Manchin says, “I want to make sure that we have post-mining reconstruction. We've put a recreational golf course on one mountain removal site, and an industrial park on another.” Environmentalists, who tend to regard neither golf courses nor industrial parks as sufficient compensation for the loss of natural beauty, are not satisfied.

But another environmental issue may come to the mountains' rescue: climate change. Security worries may be giving coal a boost, but climate concerns could give it a knock; for burning coal is the most carbon-intensive way of generating electricity. If America introduces federal controls on carbon dioxide, coal will be penalised. “I hate a carbon tax,” says Bill Rainey, president of the West Virginia Coal Association. “A carbon tax will kill us.”

Even in the absence of a federal carbon-control scheme, there are signs that climate change is taking the edge off America's enthusiasm for coal. TXU, Texas's main power-generator, was under fire for its plans to build 11 new coal-fired power stations. A deal for a buy-out of the company earlier this year led it to drop eight of them, because the private-equity firm involved didn't want grief from environmentalists.

If the concerns about the climate continue to mount, coal may never pull West Virginia out of its poverty. Still, at least the state will get to keep more of its beautiful blue mountains.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Michael Moore

Sickohim?

May 24th 2007 | NEW YORK
From The Economist print edition

An annoying self-publicist may enliven a debate about America's health system

WILL America solve its health-care problems by moving to a government-run health system like the one in Britain? The notion seems absurd given the spectacular failure of efforts by Bill and Hillary Clinton to promote the idea over a decade ago. Even Mrs Clinton herself no longer advocates Hillarycare.

Yet the issue will not go away: politicians as different as Arnold Schwarzenegger, Mitt Romney and John Edwards keep plugging away at it. And now there is “Sicko”, the latest documentary by Michael Moore, a filmmaker known for tackling thorny political issues with leftist vigour. The film, which featured at the Cannes Film Festival last weekend, goes on general release in June—and its subject is the inequities of America's health system.

Mr Moore, true to form, has orchestrated publicity stunts that would make the circus promoter P.T. Barnum proud. In making his film, he took a group of people who had volunteered to help after the attacks of September 11th, 2001, but who could not get proper health care afterward, to Cuba. He first tried getting them help at the American military base at Guantánamo Bay, where officials claim accused al-Qaeda detainees are getting outstanding free health care, but was rebuffed; he then took the Americans to Havana, where Cuban authorities were only too happy to provide treatment for a pittance.

Fred Thompson, a former senator and a Republican presidential aspirant, has publicly denounced this as pandering to the thuggish regime of Fidel Castro. When Mr Moore responded that the senator was a hypocrite because he is a fan of Cuban cigars, Mr Thompson released a video of himself chomping a stogie and telling the filmmaker to consider a mental asylum. Mr Moore claims he is now the target of a federal investigation because his trip violated the trade embargo of Cuba. The film's producers declare breathlessly that they have whisked a copy of the film's master negative overseas to avoid confiscation by the evil authorities.

Ghastly though he may be, Mr Moore has had uncommon success with his previous films (“Fahrenheit 9/11” earned over $200m), and “Sicko” looks to be another conversation starter. At least some of the antics will have been worth enduring if they lead to a proper debate on health reform, including the merits and failings of single-payer systems.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Lexington

The politics of plenty

May 24th 2007
From The Economist print edition

Kevin Kallaugher

How mass affluence shapes American politics and culture

ON JULY 24th 1959, Richard Nixon and Nikita Khrushchev had an argument in a well-equipped kitchen. The kitchen, in a model ranch house, was part of an exhibition in Moscow aimed at showing the Russians how well ordinary Americans lived. Soviet journalists dismissed the house as the “Taj Mahal”, no more representative of American homes than the tomb was of 17th-century Indian buildings. Nixon retorted that the necessary $100-a-month mortgage was well within the reach of a typical American steelworker. “However casual his commitment to honesty over the course of his career, on that particular occasion Richard Nixon spoke the truth,” writes Brink Lindsey in his new book, “The Age of Abundance”.

Reading an account of the “kitchen debate” half a century on, one is struck that the Soviet leader sounds like a quaint echo of a bygone era while the American president says little that would sound odd today. Khrushchev decries the wastefulness of having more than one brand of washing machine. Nixon replies that people like choice, and that American capitalism has proven rather good at providing lots of it.

What was true then is even more so now. Even visitors from other rich countries are often startled, when they first visit the American heartland, by the staggering abundance they encounter. Nowhere else do blue-collar workers have so much stuff: two-car garages, all-terrain vehicles, wide-screen TVs, tons of toys and knick-knacks and plenty of space to store it all. Mr Lindsey thinks mass prosperity is a wonderful thing. He also sees it as the main force driving cultural and political change in America since the 1960s.

His argument goes like this. The industrial revolution in America was driven by a bourgeois Protestant ethic that celebrated work and frowned on self-indulgence. Those who invested their pay earned respect as well as compound interest; those who wasted it on whiskey and cards forwent both. But over the years, thrift combined with technology and capitalism produced such vast returns that thrift went out of fashion. The 1960s saw the coming-of-age of the first generation whose members had never known scarcity, and therefore did not fear it. Spurning their parents' self-restraint, the baby-boomers rebelled against every form of authority and sampled every form of fun.

It was quite a party. Mr Lindsey, a vice-president at the libertarian Cato Institute, makes two observations about it. First, it could not have happened without mass prosperity. The search for alternative lifestyles was driven by college students, whose numbers exploded during the 1960s, and who were the only group with the spare time and cash to attend love-ins, be-ins and yogic retreats. Second, the 1960s spawned the two cultural movements that still dominate American politics. There was the counter-cultural left, whose members were eager to explore new freedoms and who pushed for civil

rights, feminism and environmentalism as well as sex, drugs and rock 'n' roll. And partly in reaction to the excesses of the counter-culture, there was a revival of socially conservative Protestantism. As flower children were celebrating the “Summer of Love” in San Francisco, Oral Roberts, a fundamentalist preacher, was founding a university in Oklahoma to fight their dissolute ideas.

To Mr Lindsey, the two movements offered conflicting half-truths. The counter-cultural left combined genuine liberation with dangerous excess, while the traditionalist right mixed reaction with a desire to preserve some precious institutions, such as marriage. The left attacked capitalism while rejoicing in its fruits; the other side celebrated capitalism but denounced the social dynamism it unleashed. Both movements also swallowed an unhealthy dose of unreason. The Aquarians elevated distrust of authority to the status of dogma and “ransack[ed] ancient faiths for useful jargon” that might justify “getting high, getting laid and getting out of the materialistic rat race”. Evangelicalism, meanwhile, “marked a dismal intellectual regress in American religion [and a] blatant denial of scientific reality.”

The shadow of the 60s

Today, the influence of these two movements can be seen in daily headlines. Three of the ten Republican presidential candidates recently indicated that they do not believe in evolution. A similar proportion of Democrats believe that President George Bush knew in advance about the attacks of September 11th 2001. The kind of people who believe such nonsense are fighting a noisy culture war that poisons American political discourse.

Mr Lindsey reckons this shouting match leaves most Americans cold. The silent majority, he argues, have learned sensible lessons from the 1960s. They are far less prejudiced than earlier generations against blacks and gays. They embrace the idea that people should make their own choices about how they want to live, so long as they accept responsibility for how those choices pan out. They reckon that both capitalism and its fruits are, by and large, a good thing. Since neither of the main political parties articulates this world view, Lindsey sees an opening for a third party to capture the centre ground. Alas, he sees no plausible efforts to create one, nor much sign that the two big parties will soon tone down their shrillness.

But he could be pleasantly surprised. The favourite to win the Democratic presidential nomination in 2008, Hillary Clinton, is arguably the most centrist candidate. The Republican front-runner (although his polls are slipping) is still Rudy Giuliani, a pro-gay, pro-choice ex-mayor of New York. And if either party nominates a zealot, Michael Bloomberg, the socially liberal, fiscally conservative current mayor of New York, is reportedly ready to step in and spend $500m of his own money on a third-party candidacy. American affluence is concentrated as well as widespread, and that too has political consequences.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

The Canadian Arctic

Anxiously watching a different world

May 24th 2007 | IQALUIT
From The Economist print edition

Bryan and Cherry Alexander Photography

Climate and other changes draw new interest and new misunderstandings to the Canadian north

THE first thing a visitor notices on entering the office of Nunavut's premier, Paul Okalik, is the polar-bear rug. A vast pelt of glossy white fur with head intact and fangs bared in a frozen snarl, it dominates the room. Mr Okalik has led Nunavut since the territory, encompassing most of Canada's Arctic archipelago, was created in 1999 to settle a land claim by the Inuit (once known as Eskimos). The rug is a gift he is proud to display. It is a jolting reminder that the polar bear, which many southerners view as an iconic victim of climate change, is seen in its natural habitat as a predator and a source of meat.

The jolts continue in the legislative chamber one floor below, where the upholstery is of seal skin. The shaft of the ceremonial mace is the whorled tusk of a narwhal, a small Arctic whale. The door handles are of walrus tusk. Mr Okalik says that he is well aware how the outside world views the hunting of these animals, especially the polar bear, which the United States Fish and Wildlife Service may place on its list of endangered species. He thinks these views ignore the reality of his inhospitable territory of treeless tundra, rock and ice. He gestures towards the window and its view of Frobisher Bay, still solidly iced over in early May. “It's not as if we can take up farming.”

Until recently, Canada paid little attention to its northern region. After Britain ceded control in 1880, federal officials in Ottawa treated their Arctic territories—the Yukon, the site of the Klondike gold rush, and the Northwest Territories (from which Nunavut was split)—as internal colonies.

Nomadic hunters were forced off the land into settlements. Children were sent to residential schools in the south. Tongue-twisting names in native languages were discarded in favour of numbers. Social problems, such as rampant alcoholism and drug use and a high suicide rate, were rife in the settlements. When Canada felt the need to assert its sovereignty in the 1950s, Inuit families from northern Quebec were relocated to unfamiliar terrain in the high Arctic. Many of these “human flagpoles” sickened and died.

While the great white north is central to Canada's identity myth, only 104,000 of the country's 33m people live north of the 60th parallel. Most Canadians live huddled up against the southern border with the United States; they have more in common with Americans than with their Arctic compatriots. Two things are now forcing them to pay attention to the north.

The first is climate change. This has focused world attention on the polar regions, whose ice is melting at an alarming rate. The warming climate has made accessible minerals once locked in the ice, just when their prices are high, unleashing an exploration boom. It has also reawakened an old debate over who owns the Northwest Passage sea route.

Second, the people who live in the north are demanding and getting more of a say in their future. Since 1975, aboriginal groups in the north—the Inuit in Nunavut and Indian bands in the Northwest Territories and the Yukon—have negotiated 21 land claims, giving them more control over development in a vast stretch of territory. “Land claims have transformed power relations in the north,” says Tony Penikett, a former Yukon premier. “The people have gone from being have-nots in their own land to being landowners.”

At the same time, the three territorial governments have sought more powers, though they do not yet have all those enjoyed by Canada's ten provinces. Only the Yukon has full control of its onshore natural resources, something the other two territories are still negotiating with the federal government.

All three still depend on federal subsidies, totalling C$2 billion ($1.8 billion) this fiscal year. Subsidy accounts for 60% of budget revenues in the Yukon and Northwest Territories and more than 80% in Nunavut. In addition, aboriginal groups in the Arctic, as elsewhere in Canada, benefit from special federal programmes; most do not pay taxes (the Inuit do). All three territorial governments hope that developing their natural resources will lessen their financial dependency.

So as southern Canada looks with new interest at the Arctic, it finds that northerners are becoming increasingly assertive. The result is widening disagreements about issues ranging from the environment to development and defence.

There is no dispute that the Arctic is warming. Arctic temperatures have increased at almost twice the global average rate in the last 100 years; 70,000 square kilometres of sea ice (an area about the size of Ireland) is disappearing annually. Differences start over who are the main victims. “It's not about polar bears,” says Mary Simon, head of the Inuit Tapiriit Kanatami, which represents Canada's 45,000 Inuit. “It's about people.”

Polar bears are threatened because they use sea ice as a platform from which to hunt seals. But a warming climate brings many problems for the Inuit. Unpredictable sea ice can be fatal. Life is becoming more expensive: snowmobiles must take longer routes, buildings are weakened by melting permafrost and, unthinkably, the local council in Kuujjuaq felt obliged to buy ten air-conditioners last summer after temperatures reached 31°C.

People, not polar bears

Having agitated about global warming for decades, northerners now find the focus is not on them but on wildlife. So while they welcome celebrities who drop by to publicise climate change—a British businessman, Sir Richard Branson, travelled across Baffin Island by dogsled this spring, while Jake Gyllenhaal, an American actor, visited Iqaluit in 2005—they have little time for those who equate saving the environment with animal rights.

What really worries some northerners is that the concomitants of climate change—more shipping, mining, and oil and gas exploration—may threaten the environment and with it the Inuit's traditional life, based on hunting and fishing. “We're more hardcore than Greenpeace because we know what nature is,” says Nick Illauq, a youth leader from Clyde River in Nunavut.

Others want development—but on their terms. Last year Nunavut's economy grew by 5.8%, second only to that of oil-rich Alberta. Much of the boost came from the opening of the territory's first diamond mine. “There has always been a sense that the northern ice desert of Canada was a treasure trove,” says Peter Gillin of Tahera, the mining company involved. Spending on mineral exploration in the three northern territories has almost tripled in the past five years. Of the 130 companies exploring in Nunavut this year, 32 are looking for uranium. Others are seeking gold, diamonds, silver, zinc, nickel, copper, iron ore and sapphires. Guy d'Argencourt, who supervises mining claims for Nunavut's government, recalls the old joke that a typical Inuit family consisted of father, mother, two children and an anthropologist. Now it is geologists who are ubiquitous, he says.

But the companies are not getting everything their own way. A recent attempt to revive plans dating from the 1970s for a pipeline to take natural gas from the Arctic along the Mackenzie Valley to Alberta has been delayed yet again after an aboriginal group complained it had not been consulted. An application to explore for uranium near the Thelon river in the Northwest Territories was rejected because the Lutselk'e Dene, an aboriginal group, refused to allow any activity on land it considered sacred.

Such a display of local power is new, says Mr Penikett. “When I was a kid in the Yukon and a mine opened, the profits went to New York, the jobs went to Edmonton, the taxes went to Ottawa and all we got was a hole in the ground, which we could use as a garbage dump—if the federal government gave us permission.” Nowadays proposed developments must respect local culture and safeguard the environment as well as generate jobs.

It is not just mining companies who are showing more interest in the north. Stephen Harper, Canada's Conservative prime minister, is keen to assert the country's sovereignty over the Northwest Passage, the potential shortcut to the Orient that first brought European explorers to Arctic waters almost 500 years ago. Canada considers all five routes through its Arctic archipelago to be internal, not international, waters; the United States and others disagree. In last year's election campaign, Mr Harper promised to back that claim with three new icebreakers, capable of year-round operation (the United States and Russia have such ships, but Canada does not). He also wants to build Canada's first deepwater Arctic port near Iqaluit and install a surveillance system to detect submarines under the ice cap, all at a cost of C$5.3 billion over five years.

Two budgets later, these projects have not materialised. That may not matter much. Scientists say that ice movement will keep the Northwest Passage clogged for decades, whereas the Northeast Passage around Russia has been open to shipping for part of the year since 1991.

Canada's defences in the north remain tenuous. A joint-service task force of 150 soldiers and civilians flies surveillance missions and co-ordinates ground patrols across the three territories. They are backed up by the Canadian Rangers, 4,000 part-time reservists based in 165 remote communities. Armed with rifles from the second world war and riding snowmobiles, the Rangers are Canada's eyes and ears in the north.

Northern sensitivities

Several federal attempts to assert sovereignty have trampled on northern sensitivities. Operation Narwhal, a training exercise that brought 300 troops to the Mackenzie Valley last month, prompted complaints of intimidation by Herb Norwegian, grand chief of the Dehcho First Nation. While residents of Iqaluit welcome the idea of a deepwater port, they wonder how a town of 6,000 with a housing shortage

can accommodate the 500 military personnel that would come with it. “People here were upset,” says Nancy Karetak-Lindell, the Liberal MP for the area. By announcing this plan without any consultation, the federal government was acting “like it was still the 1960s,” she says.

Underlying many of these tensions is a demand that southern Canadians acknowledge that life in the north is different. Jim Prentice, the federal minister of Indian affairs and northern development, recognises that but adds: “There is nothing that cannot be accommodated within the Canadian federation.” He is drawing up a new policy document for the north.

It is not always easy for southerners to get it right. Organisers of the 2010 Winter Olympics in Vancouver made sure they had the blessing of the Inuit before they announced that the symbol of the games would be a traditional landmark known as an *inunnguaq*. Southerners have taken to erecting these cairns to adorn their gardens. Northerners grumble that this is an abuse of their traditional culture. “Are they lost?” says Saila Kipanek, a stone carver in Iqaluit. Not completely, perhaps, but Canada is still disoriented by changes in its great white north.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

The Caribbean

Fission

May 24th 2007 | PORT OF SPAIN
From The Economist print edition

Small states get smaller still

AS REVOLUTIONS go, that of Anguilla, a plucky speck of land in the Caribbean, was more comedy than drama. In 1967, the locals burned down Government House, drove out the police and declared their independence from the small state of St Kitts & Nevis. Their bellicosity led Britain to send a force of 300 troops, followed by a squad of London policemen who were promptly photographed paddling on an idyllic Caribbean beach.

On May 30th, Anguilla will mark the 40th anniversary of its revolution with a holiday and a round-the-island boat race. Formally a British colony (or overseas territory, in the official jargon), with just 13,000 people it shows that even the tiniest countries can get along in a globalised world. Colville Petty, who watched the beaches for invaders in 1967 and now runs the national museum, grew up on a dirt-poor island where only nine houses had electricity. It now prospers from rich tourists and offshore finance. Its politicians are confident enough to have decreed a 30-month moratorium on new hotels in an attempt to avoid their neighbours' problems of rising crime and social tensions.

Success does not come automatically to the small. Politics can be fiercely factional or cosily nepotistic. Drug dealers and crime mobs can be overpowering. So can natural disasters. Montserrat, with 4,700 people, still needs British help to cope with a dozen years of volcanic eruptions. Nevis, Anguilla's neighbour of similar size, has dithered for years about leaving St Kitts.

The five islands of the Netherlands Antilles are being more decisive. Federated since 1954, they plan to break apart in 2008. Curaçao, with 135,000 people, voted in 2005 to become a separate and self-governing part of the Kingdom of the Netherlands (a status already enjoyed by Aruba). The Dutch half of the island of St Maarten/St Martin, with 35,000 people, has similar plans. Three tiny islands, Saba, St Eustatius and Bonaire, want to be Dutch municipalities, albeit with volcanoes and coral reefs instead of canals and polders.

Talks over the break-up are moving slowly. The Netherlands has offered to take on the islands' public debt of $2.8 billion (more than 80% of their GDP). In return, it wants a tighter rein on public spending and more say in fighting drugs and other security issues. The four smaller islands accept this deal. But Curaçao, suffering a depressed economy, is deeply split. “Holland is recolonising us” says Frank Martinus

Arion, a Curaçaoan novelist. Instead of help from The Hague, he favours selling the government-owned oil refinery on the island, currently operated by Venezuela's state oil company.

Two years after Anguilla, and coincidentally on May 30th, Curaçao had its own uprising. Refinery workers set fires in the capital, Willemstad. Marines from the Netherlands restored order, but black Curaçaoans had broken the hold of the island's white colonial elite. This time a referendum, not a riot, is expected to settle the island's future.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Mexico

Youthful in Yucatán

May 24th 2007 | MÉRIDA
From The Economist print edition

The former ruling party tries to reinvent itself

Get article background

THE campaign was dirty and contentious. The result was briefly disputed by boisterous crowds. But in the end the election for state governor in Yucatán was notable for what is changing in Mexico rather than what remains the same. First Felipe Calderón, the country's new president, halted arguments over the count by recognising that his centre-right National Action Party (PAN) had lost and by calling Ivonne Ortega of the formerly ruling Institutional Revolutionary Party (PRI) to congratulate her on her victory. Second, Ms Ortega seems to stand for what the PRI would like to be rather than what it once was.

Ms Ortega appeared to have won by around 7%. She survived PAN propaganda calling her a baby-killer for her pro-choice position on abortion (unusually for Mexico, Yucatán allows abortion). The PAN, which had run the state for six years, was hurt by an internal split. A former mayor of Mérida, the capital, stood for another party after losing the PAN primary. And Mr Calderón did little campaigning for the PAN's candidate. Political analysts say that he has agreed to stay clear of state races in return for the PRI's backing for his programme of structural reforms.

Having governed Mexico for seven decades until 2000, the PRI came a poor third in last year's presidential election. It holds the balance of power in Congress and has the largest number of state governorships. But its future depends on its ability to shed its previous corporatist habits and to reinvent itself as a modern centrist party.

In that, Ms Ortega looks like an asset. Still only 34, she entered politics a decade ago as mayor of her small town. She was elected to the federal Senate last year. She says she makes her living as a pig farmer and spent her senator's salary on charitable projects. Some claim that she is a protégée of Carlos Salinas, a former president, and an ally of the PRI's old-guard, though her staff deny this.

Yucatán, known for its Mayan architectural sites, is relatively poor. Ulises Carrillo, Ms Ortega's policy advisor, says the incoming governor has ambitious plans for new infrastructure and jobs. The signs are that the PRI will win the next election for state governor, in August in Baja California—another state governed by the PAN. If so, Mr Calderón may face some discontent in his own ranks. But the PRI's new national leader, Beatriz Paredes, can claim that her qualified support for Mr Calderón's reforms has done her party no harm.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

The world's worst holiday destination

North Korea through Chinese eyes

May 24th 2007 | PYONGYANG
From The Economist print edition

Eyevine

All the misery of Maoism with none of the redeeming features

Get article background

THE place often seems like a black box from which the occasional horror (like a nuclear bomb) emerges without warning or welcome. North Korea certainly deserves its nickname, the hermit kingdom. Visitors are tightly controlled and only a trickle of Westerners admitted. Yet even North Korea needs dollars, and tries to get them by attracting Chinese tourists, who go for the gambling, and the bizarre allure of a bygone era of fanaticism and privation that China itself once endured. Joining a group of 60 visitors, this is what you find.

The North Koreans can put on a good show. In April and May, no fewer than 100,000 performers went through a series of synchronised gymnastic displays at the May 1st Stadium in Pyongyang, the capital. Even a few hundred Western tourists got a peek (many from the arch-enemy, America, whose tourists are normally kept at bay). To Chinese visitors, the show, known as Arirang, was reminiscent of similar extravaganzas in Beijing during the days of Mao Zedong. “Nowadays I doubt whether we could do it,” says one, wistfully. Next year's Olympic Games in Beijing, he suggests, might prove an exception.

In the late 1990s, the North Koreans allowed investors from Hong Kong and Macau to set up casinos in their closed world. One was in Rajin-Sonbong, a failed investment zone close to the Chinese border; another lurked in the basement of an isolated hotel for foreigners in Pyongyang. North Korea correctly reckoned that, since gambling is banned in China, these would be a big attraction (gambling is also banned in North Korea for ordinary citizens, but the government allowed Chinese to staff the casinos).

As China saw it, the casinos proved rather too popular, drawing huge numbers of corrupt officials. Two years ago, China cracked down on cross-border gambling—appealing to neighbouring countries to close down casinos, banning travel agents from offering gambling tours, restricting foreign visits by officials—after one official allegedly embezzled hundreds of thousands of dollars of government funds and gambled the money away at the casino in Rajin-Sonbong. This has now been closed. The one in Pyongyang is still open, but is beyond the range of weekend holiday-makers. These days you find few gamblers there, mostly Chinese tourists betting a few tens of dollars to help relieve the tedium of endless mind-numbing tours of political monuments.

Neither China nor North Korea publishes regular figures for tourism in each other's country but the crackdown seems to have taken its toll. One Chinese newspaper said there had been 20,000 job losses in Dandong, a border town through which Chinese tourists usually pass on their way to North Korea by train. The number of Chinese visitors to Dandong has fallen to a quarter of what it was in the peak years. Last

August many travel agencies said North Korea had stopped accepting Chinese visitors. It is not clear why. Some cited floods. One official newspaper said it was because North Korea had reduced its annual quota for Chinese tourists. It is likely that it was also piqued by China's unusually tart response to its supposed ally's missile and nuclear tests. Early this year, restrictions appeared to ease again.

What remains is a niche market for the curious and sated. For all their professed ideological similarities, North Korea and China are worlds apart. Affluent urban Chinese who have travelled to other parts of Asia now visit North Korea for its rarity value, and for a taste of what they themselves have escaped from. One member of your correspondent's group was the son of a Korean war veteran. He and other Chinese visitors were disappointed to find little public acknowledgement of China's role in the Korean war of 1950-53, when hundreds of thousands of Chinese died fighting the Americans.

Older Chinese visitors find striking comparisons with their own country, 30 or more years ago. The public worship of North Korea's leader, Kim Jong Il, and of his late father, Kim Il Sung, is similar to the cult of Mao. The state ideology of *juche* (self-reliance) has much in common with Mao's isolationism. Chinese tourists are given warning, before leaving, to avoid commenting on North Korean politics and to be careful where they point their cameras. China was once as prickly.

North Korea is almost as wary of Chinese visitors as it is of Westerners. Like Westerners, Chinese are assigned guides whose job is to prevent spontaneous contact with locals. Some guides express disdain for Chinese socialism. “China is so dirty now and so expensive, and takes no stance whatsoever against the American imperialists”, says one (with its industry barely operating, North Korea's air does seem refreshingly unpolluted to Chinese visitors).

The kind of tourism North Korea prefers is the carefully controlled tours by South Koreans to Mount Kumgang, a scenic resort on the northern side of their common border. There, they have virtually no contact with locals (South Korean tourists are rarely welcome in Pyongyang). On May 17th, North and South Korea opened the first rail links across the border since the Korean war. It was largely a symbolic act. Maybe one day such links will make it easier to travel to Mount Kumgang and to Kaesong, a South Korean investment zone in the north. But there is no sign North Korea plans to let South Koreans travel freely. Regular train services are still a distant prospect.

As mobile-phone-loving Chinese tourists frequently complain, North Korea does not allow visitors to bring their phones into the country—so fearful is it of unmonitored information conduits to the outside world. There is no internet access even in expensive hotels. North Koreans authorised to speak to visitors appear to be oblivious of their guests' annoyance at such privations. They boast that North Korea's economy once outperformed China's, particularly in the 1960s when China was gripped by famine. One Chinese visitor says her brother fled to North Korea then. The North Koreans do not allow her to try to contact him.

A Chinese travel agent says North Korea's poverty is part of its off-beat appeal. If North Korea were to become richer, she says, it would lose its competitive tourism advantage. Not that it is a huge draw, even when it does welcome tourists. The Arirang performance, originally due to last for a month, ended several days early because of insufficient paying visitors.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Japan

Abe's bounce

May 24th 2007 | TOKYO
From The Economist print edition

After a lamentable start, the prime minister gets his mojo back

Japan's politics

A COUPLE of months ago, Shinzo Abe was being written off as yet another of Japan's many short-lived, forgettable prime ministers. Today pundits are scrambling to unwrite their articles of dismissal. Mr Abe himself talks about serving five years. His popularity ratings have recovered after a plunge that began almost from the moment he took office last September. And whereas earlier this year the secretary-general of the ruling Liberal Democratic Party (LDP) upbraided cabinet members for not standing up or stopping chatting when the prime minister entered the room, today even his enemies in the LDP think Mr Abe might turn out to be an asset, rather than a liability to the government in this year's most important political battle, the election in July for half the seats in parliament's upper house.

Mr Abe's term started splendidly enough, when he went to Beijing and Seoul to mend rifts that his charismatic predecessor, Junichiro Koizumi, had helped widen. At 52, Mr Abe was relatively youthful. He talked of restoring the country's self-respect and sounded tough over the emotive issue of Japanese kidnapped during the 1970s and 1980s by North Korea. Above all, he promised to carry on Mr Koizumi's reforms.

But then Mr Abe began to lose fans and not influence people. He readmitted to the LDP 11 politicians whom Mr Koizumi had expelled for voting against his main reform, the privatisation of the postal-savings system. That suggested Mr Abe preferred back-room politics to pushing for change. His new minister for deregulation was exposed for fiddling expenses, and had to resign. His health minister, Hakuo Yanagisawa, said the main function of Japanese women in an era of population decline should be as “breeding machines”. And in early March Mr Abe himself sparked a furore by denying that Japan's Imperial Army had forced possibly hundreds of thousands of women, mainly from Korea, China and Taiwan, into sexual slavery during the second world war.

The turnaround in Mr Abe's fortunes appears to have begun in April. During the first visit in over six years by a Chinese prime minister, Wen Jiabao's fixed grin was the visible sign of how much relations had improved between the two countries. It suggested that Mr Abe was justified in thinking Japan could be more assertive yet have better relations with neighbours.

More importantly, he seems to be choosing some useful fights at home over reform. He has trained his sights on *amakudari*—literally “descent from heaven”, the practice of finding cushy jobs for retiring bureaucrats in the industries they once regulated. The practice reinforces bid-rigging and other corrupt practices.

The government envisages banning contacts between ministries and organisations into which bureaucrats are typically parachuted, and creating an independent job-placement agency. These proposals are unlikely to win parliamentary approval before the upper-house election. Senior bureaucrats and their political supporters have already expressed indignation about them. Yet the initiative shows a certain Koizumi-like flair. It identifies a target for reform, flushes out resistance, and allows the prime minister to define himself by attacking the old-guard opposition within his party.

Sadakazu Tanigaki, Mr Koizumi's last finance minister and a rival to Mr Abe for the LDP leadership, argues that “the prime minister is not doing enough to tackle pragmatic issues”, preferring to concentrate on things like “patriotic education”, changing the pacifist constitution and what Mr Abe calls, with the greatest vagueness, “shedding the postwar regime”. The prime minister's backers reply that Mr Abe's pragmatic side will soon be on view.

The government is keen to make Tokyo's backward financial markets more competitive, which would boost the local economy and help raise pitifully low rates of return for savers. On May 16th, after months

of discussion, Mr Abe approved an initiative to deregulate Japan's aviation market, speed up customs procedures, inject a smidgen of entrepreneurialism into Japanese agriculture and boost foreign direct investment. On May 24th he was expected to lay out proposals for how Japan can do its bit to cut global greenhouse-gas emissions in half by 2050.

Whether such initiatives gain much traction remains unclear. And even if they do, not everyone thinks the turnaround in Mr Abe's fortunes will necessarily help the ruling coalition in the July election. Local races are decided on the strength of the candidates and their organisations as well as on government policy. But assuming the ruling party can cobble together a majority in the upper house, Mr Abe's prospects of remaining prime minister have just got brighter.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Indian politics

Saffron fading

May 24th 2007 | DELHI
From The Economist print edition

The Hindu nationalists are struggling for leadership and direction

Get article background

WHEN a party dominated by dalits—those former wretches known as “untouchables”—swept to power in Uttar Pradesh (UP) on May 11th, the lamentable performance of India's ruling Congress party made headlines. Congress's campaign in UP had been run by Rahul Gandhi, a glamorous member of the family that has ruled both party and country. His failure to improve its abysmal fortunes in UP, India's biggest state, suggested that Indians are out-of-love with dynastic politics. But significant as this was, there was a bigger casualty of the vote: the Hindu-nationalist Bharatiya Janata Party (BJP).

Mr Gandhi at least maintained Congress's toehold in UP, winning 22 of 402 seats. The BJP's leader, Rajnath Singh, presided over an unpredicted collapse. India's second main party, the BJP had expected to win around 100 seats and share power with the Bahujan Samaj Party (BSP), led by Mayawati, or the “dalit queen”. But her party won a majority. The BJP got a mere 51 seats—its lowest tally since 1985, which was before it rose to state, then national, power on the back of a feud between Muslims and Hindus in Ayodhya, eastern UP, over the contested site of a mosque. “This was unexpected, shocking, a very surprising thing, it was a debacle,” says Mr Singh.

Yet it was consistent with the saffron party's fading fortunes. Since losing a general election in 2004—also unexpectedly—it has been torn by an ideological battle between moderate and hardline devotees of *Hindutva*, “Hinduness”, an ideology which holds that India is a Hindu nation and non-Hindus are alien to it. As a mark of this tussle, Mr Singh, a craggy man with a slight lisp, is its third leader in three years. He is a compromise: a moderate who emerged from the party's hardline mother organisation, the Rashtriya Swayamsevak Sangh (RSS). And he is a caretaker: one of his predecessors—either Atal Behari Vajpayee or Lal Krishna Advani—is likely be the BJP'S prime ministerial candidate in an election due in 2009. Both men will then be in their 80s, but Mr Advani, a hard-liner, is much the less decrepit.

The party's problem is that its main issue—the need for Hindus to rally against a Muslim threat in their midst—is unlikely to win majority support. It has never got more than 25% of the national vote, even in times of dreadful communal violence. In addition, BJP hard-liners, fulminating against alleged Muslim plots to kill their cows and steal their daughters, can turn off the coalition partners the party needs. Its challenge is to retain enough of *Hindutva* to please core supporters, while appearing moderate enough to reassure others.

Mr Vajpayee, who has been prime minister three times, was a master of this game. In 2005, Mr Advani lost the party leadership trying to play it. Though a lifelong Muslim-basher, he made a speech in praise of Muhammad Ali Jinnah, Pakistan's founder, which the RSS found unacceptable. As for Mr Singh, he has also struggled to strike a balance. Campaigning in UP, he sought to burnish his hard-line credentials by getting himself arrested over a furore caused by some anti-Muslim propaganda being distributed by BJP activists. Embarrassingly, he failed.

Miss Mayawati was smarter. With 22% of the population, dalits can no more deliver a majority than Hindu bigots. But putting high-caste brahmin and Muslim candidates on the BSP ticket helped her forge a winning coalition. This has excited some bold speculation, including talk of a dalit march on Delhi, which is just about imaginable, or of the BJP's imminent demise, which is not.

The party still holds power, in coalitions or outright, in ten states. Even in UP it has retained its support among the urban middle-class. The RSS is recruiting hard among this fast-growing group. Besides its traditional *shakhas*—early morning drills for devotees dressed in khaki shorts—it now offers “software shakhas”. These are discussions on *Hindutva* for workers in the ballooning computer-services industry. The RSS's spokesman, Ram Madhev, says 30 courses of these shindigs are held each day in Bangalore alone.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Asia's last lions

More of a whimper

May 24th 2007 | SASAN GIR
From The Economist print edition

Unsated by the last of the world's tigers, the Chinese are turning to lions

A TESTY flick of a black-tipped tail and the lion shows itself, resting in a sandy-brown thicket after the arduous business of mating. The female is ten yards to the right, staring statuesque through the scrub. The pair of Asiatic lions, in Gir National Park, in India's western state of Gujarat, will conjoin every 25 minutes for four days. With every ejaculation, the male will emit an increasingly weary roar. Being a lion is not easy—and not only because the species is so inefficient at reproducing.

Little known even in India, the 350-odd lions at Gir are the last survivors of a sub-species that once roamed from Greece to eastern India. The lions in Daniel's biblical den were of this Asiatic kind, smaller than African lions, with a lower-slung belly. The survivors in Gujarat—which live, incidentally, alongside 20,000 descendants of African slaves, whose ancestors were freighted to the region two centuries ago—are a rare conservation success. There were just two dozen animals by 1900, when the local maharajas and British officers started shooting them less and protecting them more. But in the past four months, eight Asiatic lions have been killed by poachers.

Reuters

You say the Chinese eat what?

Unlike tigers and leopards, which are poached for their pelts and for their bones to make Chinese traditional medicines, lion carcasses used not to be prized on the black market. That seems to have changed. The animals poached at Gir were snared, using steel tiger traps, by experienced tiger killers, members of an “untouchable” community devoted to the task. Their bones—practically indistinguishable from tiger bones—were removed. Indian wildlife officials believe they will be smuggled to China, as either counterfeit tiger bones or an acceptable substitute for them.

Gujarat's state government, which relishes its custody of the last of the breed that adorns India's national symbol, has lurched into action. The chief minister has pledged an additional 400m rupees ($9.8m) to Gir, which will pay for 300 extra guards. There has also been an investigation into the recent poaching; 40 people have been arrested.

Alas, this may not save the Asiatic lion, if the plight of India's tigers is any guide. Despite decades of intermittent government flurries of activity to save them, Indian tiger numbers have collapsed, to around 1,800 in the wild, about half the world's total. They are victims of China's feverish demand for tiger-penis wine and for tiger bones, of a corrupt and moribund Indian Forest Service and of the populist concerns of the current government for the tribes who live, and sometimes poach, in India's protected forests.

Protecting the Asiatic lions will take more than money. A clear-out of Gujarat's indolent forestry officials is required. Hundreds of wells, dug in the Gir reserve by local tribes, need to be covered; 19 lions have drowned in these pits in the past five years. And a second lion colony is needed, in order to guard against a high risk of the Gir lions being wiped out by an epidemic. A suitable forest, in Madhya Pradesh, has been prepared for this; 1,500 families have been moved out of the area. But Gujarat's government, jealous of what it considers to be its lions, has refused to let any leave the state.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Myanmar

Dirty dealings

May 24th 2007 | BANGKOK
From The Economist print edition

World powers suck up to the junta

Get article background

THE paranoia, secrecy and all-round villainy of the generals who run Myanmar (Burma) provide fertile ground for conspiracy theorists. Last month Myanmar restored diplomatic ties with North Korea. On May 15th, Russia said it was reviving a stalled plan to sell the country a small nuclear reactor. A few years ago, Abdul Qadeer Khan, Pakistan's notorious nuclear proliferator, reportedly visited the junta. Join the dots and a scary picture emerges: they must be making nukes.

Entertaining though they are, such theories fall apart on closer examination. A new paper by a Myanmar analyst, Andrew Selth, dismisses the idea that the junta could produce nuclear bombs in the next decade. They lack the resources, expertise and even desire to build them: for all the regime's wickedness, it has been a consistent opponent of proliferation. The small Russian research reactor may achieve little besides satisfying the Burmese generals' desire for “prestigious” bits of technology. An earlier paper by Mr Selth debunked claims that China is building military bases along Myanmar's coast, from which to menace India and dominate the Indian Ocean. The xenophobic Burmese regime is too suspicious of China to give it a military presence on its turf.

What really is happening is that China, Russia and another would-be great power, India, are scrabbling to do deals with Myanmar's regime. Like vultures eyeing carrion, they are salivating over the benighted country's rich natural resources. The Burmese generals are in the happy position of setting competing powers against one another, while enlisting their help in resisting pressure to restore democracy. In January, Russia and China—both of which have signed big oil and gas deals with Myanmar—vetoed America's proposed censure of the Burmese regime in the United Nations Security Council.

India used to join the West in demanding democratic change. But the rumours about Chinese military bases, plus India's own thirst for energy, made it forget its principles and start wooing Burmese generals with guns and money. This all takes place behind a figleaf of “constructive engagement”. The junta was said to have been dissatisfied with cheap Chinese arms, so India's sales of weapons, said to range from artillery to reconnaissance aircraft, will have been most welcome.

The Chinese know they are unlikely to get to use Myanmar as a military platform. But by developing the country's oil and gas fields, and by building pipelines to Myanmar's Indian Ocean ports, they hope to reduce their vulnerability to a blockade of the Malacca Strait, through which they import much of their oil.

However, as India is learning, Burmese generals are unreliable. Two Indian energy firms and a South Korean one have spent heavily on developing an offshore gas field in Myanmar, only to be unceremoniously dumped now that the Chinese have come along waving a larger cheque.

On May 27th the house arrest of Myanmar's pro-democracy leader, Aung San Suu Kyi, is due to expire—but the regime is widely expected to extend it instead. America and the European Union recently renewed sanctions against the junta but neither the West's tough approach nor “constructive engagement” has budged the regime. With so many big powers slavering to do business with it, the chances of change look as bleak as ever.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Kazakhstan

Kazakhbashi

May 24th 2007 | ALMATY
From The Economist print edition

One step forward, two back

Get article background

WHEN Kazakhstan's authoritarian president, Nursultan Nazarbayev, proposed constitutional reforms on May 16th to expand the power of parliament, it sounded too good to be true. It was. Both houses set to work and passed a package of amendments in just two days. They agreed to enlarge the number of seats, with two-thirds to be filled from party lists, rather than through direct elections of individuals. Lawmakers will also get a say in the choice of prime minister. All well and good.

But one constitutional change, slipped in at the last minute and not sought by Mr Nazarbayev himself (at least officially), is overshadowing these positive moves. Parliament waived term limits for the 66-year-old president, who has already been at the helm for 17 years. He will be allowed to seek the top job indefinitely, though his successors will be limited to two terms.

AP

Repeat after me: I am a democrat

This would be no reason for concern in a real democracy. Franklin D. Roosevelt served four terms and one parliamentarian held him up as an example of a leader whose long rule brought stability. But Kazakhstan has never held votes judged free or fair by international observers. This amendment is a mandate for Mr Nazarbayev to rule for life.

Will the Kazakh leader, known for his liberal economic reforms, choose to follow the late totalitarian Turkmen president-for-life, Saparmurat Niyazov, called “Turkmenbashi” (leader of all Turkmen)? Some analysts hoped against their own better judgment that Mr Nazarbayev would seize the high ground, thank the deputies for their trust and nobly decline the crown—thereby securing the chairmanship of the Organisation for Security and Co-operation in Europe in 2009 that he craves.

Fat chance. Mr Nazarbayev signed the amendments on May 21st, provoking condemnation from the opposition, which has been shaken out of its complacency. The American ambassador, by contrast, chose to praise the reforms overall as “a good step forward”. What might America's reaction be if the leader of another oil-rich former Soviet republic, Russia, were to amend its constitution to let President Vladimir Putin seek another term?

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Lebanon

The cauldron may bubble over again

May 24th 2007 | NAHR AL-BARED, TRIPOLI
From The Economist print edition

AFP

The latest outbreak of violence in northern Lebanon menaces the whole region

FIGHTING raged this week between the Lebanese army and radical Islamists entrenched in a Palestinian refugee camp, leaving scores dead and hundreds wounded. Beginning on May 20th, the thud of explosions and clatter of machine-gun fire echoed into the hills above the Nahr al-Bared camp, near the northern city of Tripoli, as troops struggled to root out several hundred heavily armed fighters. By mid-week, many of the camp's 30,000 or so residents had fled during lulls in the shooting. But as edgy, exhausted army conscripts tightened their siege, and the militants inside declared a fight to the death, the battle looked set to continue.

The clashes started after police stormed a flat in Tripoli, following leads that tied a recent series of bank robberies to a radical jihadist faction known as Fatah al-Islam. Militants responded by attacking army posts around the camp, where growing numbers of gunmen have appeared since the group formed last year. Though considered small and marginal, Fatah al-Islam has been linked to at least one of the sporadic bomb attacks that have hit Christian areas of Lebanon in recent years. But it denied responsibility for night-time blasts that struck two commercial streets in the Lebanese capital, Beirut, this week, killing an elderly woman.

The violence comes at a difficult time for Lebanon, which was shaken by a devastating war with Israel last summer. Since then, its Western-backed government has been locked in a stand-off against a pro-Syrian coalition, led by the Shia party, Hizbullah, over the opposition's demand for a veto-wielding share of cabinet seats. Though the fighting in the north pits a widely disparaged Sunni Muslim group against a national army that embraces all Lebanon's faiths, many Lebanese view the clash through the prism of this wider political contest.

Government officials charge that Syria, which ended a 29-year military presence in Lebanon only in 2005, is sowing such strife in a bid to regain its power-broking role. Another alleged Syrian aim is to block the setting up of an international tribunal to try suspects in a string of political murders beginning with the assassination in February 2005 of Rafik Hariri, a five-times Lebanese prime minister. With the pro-Syrian opposition refusing to back a law to create the court, the UN Security Council is now debating whether to establish it under Chapter 7 of the UN charter, which could mandate sanctions against countries that refuse to co-operate.

Syria adamantly denies any link to the murders or to the current violence. Yet it is true that at the time of Hariri's killing he was trying to rally political forces to challenge Syria's dominance. Mass protests after his death shamed Syria into withdrawing its troops but it left in place many forces that concur with Syria's view of Lebanon as a bulwark against Western influence. Bar last summer's war, when Israeli bombs ravaged Shia areas, nearly all political violence since the Syrian withdrawal has targeted anti-Syrian activists.

Before Syria's departure, most of Lebanon's 12 Palestinian camps, which under a 1969 agreement remain off-limits to Lebanese authority, were controlled by Syrian military intelligence. Syria is also known to have sponsored jihadist groups, unleashing them not only in Lebanon but against American troops in Iraq.

The leader of Fatah al-Islam, whose ideology is close to al-Qaeda's, was in Syrian custody before resurfacing in Lebanon last year. Since then, the group has recruited not only among Lebanon's 400,000-odd Palestinian refugees, many of whom are destitute and disillusioned by the failure of secular groups to better their lot, but also among international jihadists, including Saudis, Algerians and Yemenis, most of whom would have entered Lebanon across Syria's nearby border.

When the violence erupted, Palestinian factions united with Lebanon's rival parties, including Hizbullah, in rare unanimous condemnation of Fatah al-Islam as a dangerous and alien force. But as the army, stung by the loss so far of 32 soldiers, prolonged its shelling of the crowded camp, anxiety grew over the danger to civilians. At several other refugee camps, themselves housing a growing range of radical groups, residents set tyres on fire in protest.

Their anger is understandable. With at least 80 people known to have died so far, this has been the bloodiest internal strife in Lebanon since the end of its civil war of 1975-90. Entire streets of the camp were destroyed as the army pounded the maze of breeze-block buildings with mortar and artillery fire. From nearby rooftops the shelling looked indiscriminate. Thick clouds of dust and smoke rose up from all quarters. Some shells missed the camp entirely, splashing into the Mediterranean beyond. Their electricity and water supply cut off, terrified camp residents had to dodge both the militants' sniper fire and the army's constant shelling. Some complained that the gunmen were holding the camp hostage, but when several hundred gathered to shout protests, militants scattered them with gunfire. Muezzins could be heard calling from minarets for a ceasefire to let in relief workers. One UN aid convoy crept into the camp, but was forced to retreat under heavy fire.

Seeking to score points from the drama in their own feuding, some Lebanese opposition parties have accused the government of turning a blind eye to the spread of radical Sunni groups, insinuating that they were meant as a foil against Shias. Others have hinted, implausibly, that Fatah al-Islam is a CIA-funded operation, aimed at prompting an army coup. Yet it appears that most Lebanese solidly back their army, and the government, bolstered by support from the Arab League as well as America, seems determined to wipe Fatah al-Islam out.

But as always in Lebanon, the balance is delicate. Should the army prevail with a minimum loss of life, the government in Beirut may feel boosted by the current wave of support from ordinary citizens. Worse bloodshed, however, could play into the hands of its enemies, showing the army to be feeble, stirring unrest among Palestinians, and favouring the opposition's drive to topple the government. Whatever the outcome, the fighting is also a reminder that Lebanon—and the rest of the world—should not let the country's wretched Palestinian camps continue to fester as ghettos of misery and extremism which stoke up anger across the region.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Algeria

Sour and prickly

May 24th 2007 | ALGIERS
From The Economist print edition

A general election has made almost nobody any happier

Get article background

AS ELECTION day drew to a close last week, the narrow streets of Algeria's capital erupted. Young men draped in flags hung out of car windows or dodged traffic on their scooters, hooting as they went. But this was no celebration of democracy. An Algerian football team, Entente Setif, had just won the Arab club cup, causing nationwide excitement. By contrast, barely one in three Algerians had bothered to vote in the general election that day. Many polling stations were all but deserted. In one, an election official was fast asleep on a pile of ballot papers.

It was the third time Algerians had voted for a parliament since 1992, when the army abruptly interrupted a short-lived experiment in democracy by calling off the country's first multi-party election after the fundamentalists of the Islamic Salvation Front (FIS) had swept the board in the first round, whereupon the generals stepped in to annul the process. That intervention triggered a conflict of extraordinary brutality that is yet to be fully extinguished, with some 200,000 dead.

Reuters

Bouteflika's flickering faith in democracy

In that vote 15 years ago the FIS, which is now banned, offered a real alternative to the regime. Today there are plenty of parties but less real choice. As the recent campaign got under way, many Algerians were more interested in the presidential election across the Mediterranean, in France. In Algeria, the National Liberation Front, the country's sole legitimate party from independence in 1962 until a political opening in 1989, easily won the day, with its allies in second and third place. Two parties with strong traditions of opposition were almost entirely excluded: the Islamists of el-Islah, which had been the largest opposition party in the last parliament, were reduced to three seats after the government blocked their former leader from standing for reasons that were never clearly explained; and the Socialist Forces Front, a liberal party based in the Berber region of Kabylia, decided, for the second time in a row, to boycott the proceedings.

In any event, the vote will barely affect policy. All three main parties line up obediently behind President Abdelaziz Bouteflika, championing his reconciliation plan to draw a line under the civil war and pay for a big public-works programme. But the low turnout dispelled hope that Algeria may be edging towards true democracy. Few people voted because they know that power is concentrated in the president's hands and parliament has little influence. They also see politicians and the establishment as corrupt, unaccountable and distant. That perception will be reinforced by the election, which returned a notably aged clutch of deputies, many of them chosen at party headquarters in Algiers, to represent a young, frustrated populace.

It is hard to gauge how much support a party like the FIS would have got, had it been allowed to stand. Algerians may have become depoliticised, as Berbers and Islamists have been bought off with minor concessions and as public spending, paid for by oil and gas profits, has soared.

This has brought back a modicum of stability. And Mr Bouteflika has piloted other changes for the better. He has returned Algeria to the international stage after its isolation in the mid-1990s; he has used some of the hydrocarbon windfall to pay off debt and amass more than $80 billion in reserves; and he has built up the power of the presidency, winning himself room for manoeuvre from the generals who ushered him into office in 1999.

But problems persist. Remarkably protected from the forces of globalisation, Algeria has a dated charm

but still feels isolated. Tourism, booming next-door in Tunisia and Morocco, is minimal. Privatisation and other economic reforms are impeded by a secretive, Soviet-style bureaucracy. The country—both the government and people in general—is twitchy about foreign meddling.

And it is still deeply wounded by the violence of the 1990s. Those were the years when writers and musicians had to flee, foreigners often felt threatened, and people stayed at home after dark. Despite the official policy of national reconciliation meant to heal the wounds of that harrowing period, those touched by the violence still nurse their grievances. The effort has been set back recently by a troubling resumption of violence, notably suicide bombings that killed 33 in the capital last month and were claimed by Algeria's Salafist guerrillas, who recently rebranded themselves as a branch of al-Qaeda.

Meanwhile Mr Bouteflika, rather than strengthen institutions like parliament, appears to be gearing up for a constitutional change that could boost presidential power and let him run for a third term, in 2009. His health, which has been poor since he was rushed to hospital for several weeks in Paris at the end of 2005, has made this course look even less wise. If he pursues it, hopes of a more open Algeria may shrink, making it that much harder for the place to emerge from its gloom.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD MIDDLE EAST & AFRICA

Nigeria

New government, old problems

May 24th 2007 | LAGOS
From The Economist print edition

Why should the new government do better than its predecessor?

Get article background

EXPECT a different style of leadership but little change in the government's way of working. That, in effect, was the message of Nigeria's outgoing president, Olusegun Obasanjo, to party stalwarts this month before the inauguration of his chosen successor, Umaru Yar'Adua, due on May 29th. As the gruff, short-tempered and evangelical Mr Obasanjo leaves office and the mild-mannered, reclusive and devoutly Muslim Mr Yar'Adua moves in, the big question is how much authority the new man will bring to bear on Africa's most populous nation (of 140m or so), one of the most ungovernable on the planet.

The elections that brought Mr Yar'Adua to office last month were so badly run and marred by such widespread rigging that they lacked even a pretence of democratic plausibility. While opposition groups have filed petitions to annul the results, an outcome unlikely to happen because of Nigeria's tortuously slow legal process, Mr Yar'Adua may find that the failings of his own party are largely responsible for his doubtful legitimacy. Many Nigerians see Mr Yar'Adua, who has little experience of the world beyond his northern state of Katsina, as a puppet of Mr Obasanjo, a tough paternalist and former military ruler who is due to become chairman of the ruling People's Democratic Party (PDP) after the inauguration.

Speaking to newly elected officials this month, Mr Obasanjo emphasised that the party—and by implication he himself—would map out Nigeria's future. “We will ensure that it will be a party of policy and the government will be a government of programmes to implement the policies of the party,” he said.

Despite steadying the macro-economy, boosting private-sector investment and clearing Nigeria's $35 billion of debt, Mr Obasanjo leaves Nigeria in a pitiful state. Electricity supply remains patchy, graft in public offices is still rife after an anti-corruption war that was largely rhetorical, and the oil-producing Niger Delta is a zone of almost permanent conflict.

While Mr Yar'Adua has so far spoken in platitudes and given few details of how he expects to make changes, he may approach problems more calmly than his predecessor did. Mr Obasanjo was a micro-manager who concentrated power in the presidency and entrenched Nigeria's ruinous culture of patronage. But the new man is unlikely to take dictation from Mr Obasanjo, even if the outgoing president does manage to exert a lingering influence.

One big problem for Mr Yar'Adua, if he is truly keen to tackle poverty, is that the 36 new state governors, who have vast power, have even less incentive than their predecessors to stop looting their state treasuries. They know that votes count for little and that the constitution still gives them immunity from prosecution in one of Africa's most corrupt countries.

Mr Yar'Adua has to decide which influential power-brokers he needs to court and which of his venal campaign financiers and backers he can dump without hurting his authority or compromising himself over corruption. Nuhu Ribadu, the country's anti-corruption boss, says he is concerned that some of Mr Yar'Adua's backers may have financed the new president so that they can later get him to nominate allies in his new government. These backers could then have a “shield or protection” for their more nefarious activities.

Moreover, Mr Obasanjo has made things worse by authorising the sale of a rash of state assets: an auction of oil fields benefiting some obscure companies with political connections; the sale of Nigeria's largest oil refinery to a consortium that includes a company he has shares in; and the award of around 1,000 licences to mine and explore minerals. The opposition has accused Mr Obasanjo of a “fire sale” before he leaves. Mr Yar'Adua will have to review these sales, unless he wants people to think he really is

a puppet. But in doing so he could upset the political apple-cart.

With a population growing so fast and a government that performs so dismally in providing basic services, Africa's biggest oil producer may face a crisis unless drastic change occurs soon. In the oil-rich delta, Nigeria's biggest earner, militants claiming to be fighting for the rights of the delta's poor have upped their attacks on oil facilities and are kidnapping more foreign workers. The American Energy Department reckons Nigeria has lost $16 billion in revenue since December 2005.

Mr Yar'Adua says he has a “Marshall Plan” for the delta up his sleeve and that his new deputy, Goodluck Jonathan, a state governor from there, will play a big part in settling the unrest. But the delta's main militant group has already called Mr Jonathan a traitor. Last week, attackers blew up part of his country home.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Ghana

Bankruptcy and burials

May 24th 2007 | ACCRA
From The Economist print edition

Can Ghanaians afford such splendid funerals?

Get article background

SWEATING under the weight of the coffin, red rags tied round their foreheads, the pall-bearers dip and weave through the crowd of mourners as the winged coffin soars above them, its brightly painted feathers forming a halo around the shining eyes and sharp beak. On a recent Saturday, Ghana's funeral day, 67-year-old Nana Kobina Okai was buried in a multi-coloured, hand-carved, eagle-shaped coffin signifying his high social standing as the chief's brother. Mr Okai left behind three wives, a dozen children and 14 grandchildren.

The day began with mourners gathering in their funeral attire of black, red and white. Professional mourners led the wailing; a band played. The procession through the dusty streets of Nyanyano, near the capital, Accra, lasted hours, stopping periodically for a libation of schnapps to be splashed over the coffin. After the body was lowered into the ground, the coffin was smashed up with rocks to deter grave-robbers. Then the eating, drinking and dancing began.

In Ghana the funereal send-off is as important as the life itself. But the costs, borne by extended families, can be punitive. Some 45% live on less than $1 a day, 79% on less than $2. Yet funerals tend to cost between $2,000 and $3,500. “Money measures the quality of the funeral and the family,” says Sjaak van der Geest, an anthropologist. The more cash spent, the higher the reputation of the deceased and the family. Mr Okai died in hospital, then spent almost three months in the morgue, at a cost of $521: the longer your body is in the fridge, the more prestigious. The Ga king, recently buried in Accra, was on ice for 18 months; the Dagbon king, in northern Ghana, for a record four years.

Mr Okai's house was repainted for the wake. His coffin cost $319, two-thirds of the average Ghanaian's annual income. Posters announcing the funeral were printed and distributed around town, beer and soft drinks bought, food prepared, the band hired, T-shirts bearing Mr Okai's picture printed, transport for mourners arranged, diesel generators rented and cameramen brought in to record the day. A funeral arranger, Joseph Akrashie Annan, reckons that $2,470 was spent sending Mr Okai to his grave.

In the 1980s Ghana's then military ruler, Jerry Rawlings, set up a commission to look at the exorbitant costs of funerals amid fears they were retarding the country's economic growth. “Every year funerals grow in size, pomp and pageantry,” says Edward Kutsoati, a Ghanaian economist at Tufts University in the United States. “They are becoming centre-stage in the life of Ghanaians. This is not an efficient allocation of resources.”

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

The International Criminal Court

More suspects in its sights

May 24th 2007
From The Economist print edition

Getting into its stride

Get article background

ORGANISED mass rape, as a war crime. After the mutilation of civilians in northern Uganda, the conscription of child soldiers in Congo and potential genocide in Sudan, this is what the International Criminal Court (ICC) has chosen to focus on in its latest investigation, announced this week. This time the atrocities were carried out in the Central African Republic (CAR) in 2002-2003.

Ever since winning independence from France in 1960, this impoverished and landlocked country of 4m-odd people has suffered repeated coups and civil strife. In 1993, Ange-Félix Patassé became the CAR's first president to win power in a reasonably fair election. He was re-elected, again quite fairly, in 1999. But in October 2002 his army's former head, General François Bozizé, launched a coup. It failed, and Mr Patassé cracked down harshly. In March 2003 General Bozizé took power in a second coup. He is still president.

During those five months of conflict, Mr Patassé enlisted the support of rebel troops from the Congo, led by Jean-Pierre Bemba, and mercenaries from Chad and Libya to help defend his capital, Bangui. Human-rights groups have accused them of carrying out appalling atrocities.

The sexual violence was particularly brutal. For the first time the court is investigating a situation where the number of rape victims exceeds the number of murders, says Luis Moreno-Ocampo, the ICC's chief prosecutor. He has had detailed accounts from at least 600 rape victims, including children, old women and men. Many were gang-raped, often in public.

In December 2004, Mr Bozizé asked the ICC to investigate the atrocities allegedly committed by Mr Patassé's and Mr Bemba's men, explaining that the CAR's own courts had no jurisdiction over those outside the country. Mr Patassé is in exile in Togo, while Mr Bemba, a former vice-president of Congo, is in self-imposed exile in Portugal after losing last year's presidential run-off against Joseph Kabila. The CAR is one of 104 members of the ICC.

Mr Moreno-Ocampo insists he is “not targeting any particular suspect at this stage”. But Messrs Patassé and Bemba, who vigorously deny any wrong-doing, are plainly in his sights. He says the ICC is also monitoring the deteriorating humanitarian conditions along the CAR's northern border with Chad and Sudan.

This is the fourth formal investigation launched by the court since it was set up in The Hague five years ago. Many, including some of its original backers, have complained about the slowness of its procedures. But it has passed some notable milestones. It has issued international arrest warrants against its first two suspects in Sudan and five rebel leaders in Uganda. Its first trial—of Thomas Lubanga, a Congolese rebel leader—is due later this year. Many a highly placed thug, it is hoped, is beginning to sleep less easily at night.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

South Africa

The name game

May 24th 2007 | JOHANNESBURG
From The Economist print edition

Changing names is making some people cross

Get article background

VISITORS, taxi drivers and residents are bracing themselves for a bit of confusion in the port-city of Durban, now also known as eThekwini. Over 180 buildings, streets and roads have been targeted for renaming; hardly unusual, as many names, including those of some cities, are being changed to reflect post-apartheid South Africa. Last year Johannesburg International Airport, formerly Jan Smuts, was once again renamed, this time after Oliver Tambo, one of the ruling African National Congress's leaders. But in Durban, as in many other places, changing names is proving more controversial.

A proposal to rename Pretoria as Tshwane so annoyed opposition parties that it has been shelved for now. Many Afrikaners—descendants of South Africa's first white settlers, mostly of Dutch stock—have been protesting against what they see as an attempt to erase their heritage. In Durban proposals to rename streets after heroes of the new South Africa, such as Yasser Arafat and Fidel Castro, have been met with harrumphs. One odd idea was to rename Point Road after Mahatma Gandhi, India's independence leader and moral beacon, who spent many years in South Africa; it is in the city's red-light district.

The Democratic Alliance, the main opposition, says it is not against renaming but that the ANC has excluded it from deliberations, tried to impose partisan choices and broken the rules. The Inkatha Freedom Party, a mainly Zulu party whose heartland is in Durban's hinterland, is unamused by a proposal to rename the Mangosuthu highway, which took its name from the party's leader. A protest march earlier this month turned nasty.

This week local ANC bigwigs met the opposition to calm things down. A deadline for residents to object to new names or suggest others instead has been extended until June 23rd; the city council will have the final say. Durban/eThekwini should listen carefully to its residents. Last month the Supreme Court of Appeal said that the newly-renamed town of Makhado, in Limpopo province, must go back to its previous identity as Louis Trichardt, named after a Boer leader who trekked up north in the 1830s; the court deemed there had been too little consultation.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

France's new government

A study in perpetual motion

May 24th 2007 | PARIS
From The Economist print edition

AFP

The new President Sarkozy storms ahead, after a surprisingly good start

Get article background

DURING the campaign, his opponents called him “dangerous” and “brutal”. They even threatened riots if he won. But France's new president, Nicolas Sarkozy, has in his first week disarmed critics with an artful mix of political inclusiveness, policy creativity and symbolic renewal.

It is hard to overstate the impact of the choice of Bernard Kouchner, a man of the left and a hugely popular humanitarian champion, as foreign minister (see article). Had Mr Kouchner been lured into a minor ministerial job in a government of the right, the bridge-building symbolism would still have been clear. By giving him foreign affairs, France's public face to the world, Mr Sarkozy has deftly undercut his leftist opponents.

Mr Kouchner is one of four men of the left in the government of François Fillon, Mr Sarkozy's choice as prime minister. The new Europe minister, Jean-Pierre Jouyet, is an old family friend of the defeated Socialist candidate, Ségolène Royal. Eric Besson, a junior minister for public policy attached to Mr Fillon's office, acted as Ms Royal's chief economic adviser earlier in her campaign. Martin Hirsch, who gets a junior anti-poverty portfolio, was head of Emmaüs France, a charity for the homeless. And on top of these four, Hervé Morin, once a right-hand man to François Bayrou, the centrist presidential candidate, is the new defence minister.

With seven women in a cabinet of 15, only two cabinet ministers who went to the elite Ecole Nationale d'Administration, and the first Frenchwoman of North African origin in a top post (Rachida Dati, the justice minister, whose mother was a cleaning lady), Mr Sarkozy has stunned those who expected an ideological president. He has put merit before loyalty. And he has responded to a public desire for bipartisanship that was expressed in the strong first-round vote for Mr Bayrou.

The public seems to like it. Fully 66% of Socialist voters told a poll this week that they approved of Mr Sarkozy's left-wing appointments. The Socialist Party has fumbled for a response, managing only to evince sourness and confusion. It evicted Mr Kouchner from the party. François Hollande, its boss, was left looking vaguely absurd by asking voters to back Socialists in June's parliamentary election because “the French need to feel represented.”

Mr Sarkozy has been quick to stamp his mark and spring surprises elsewhere. This week, he invited in France's ecological protest groups, more used to taking their grievances to the streets than to the Elysée Palace. Alain Juppé, the new ecology minister, who converted to greenery during a year teaching in

Canada after his suspension from public life for political corruption, symbolically staged a press conference under some trees.

For his part, Mr Fillon has announced that the unions have until September to do a deal over minimum service on public transport during strikes; and until December to agree to a new, single job contract meant to break down the labour market divide of insiders versus outsiders. A law giving universities more autonomy will be passed by an extraordinary parliamentary session in July, after the June election. Tax cuts are expected in the new government's first budget, due in September.

Other appointments also point to a possible new approach. By giving Christine Lagarde, former chief of a big American law firm, the agriculture ministry (traditionally a conservative bastion) Mr Sarkozy may be preparing the ground for a more flexible attitude to farm subsidies. An interim review of the European Union's common agricultural policy is due in 2008. Although she was careful to say this week that agriculture would continue to have a “strategic” role, Ms Lagarde also said that France could not continue its posture of “intransigence” for ever.

Mr Sarkozy's carve-up of ministerial portfolios reflects his own priorities. The finance minister, Jean-Louis Borloo, a popular former social-affairs minister who regenerated the industrial town of Valenciennes when he was its mayor, has taken a chunk of the jobs ministry. The idea is to persuade the French, weaned on subsidised job creation, that economic growth is the only sure source of employment opportunities. Similarly, Eric Woerth, the new budget minister, has inherited the public service, formerly a separate ministry, pointing to cuts in France's overweight bureaucracy. Mr Sarkozy has promised to replace only one in two retiring civil servants.

Even the new style is a break with Jacques Chirac—and not just in the presidential jogging outings and celebrity-style photos of the complex Sarkozy family. As president in charge of foreign and defence policy, he has already visited Berlin and Brussels. But he also dropped in on an aircraft factory and a hospital in his first few days, showing that he has no intention of leaving domestic policy to the prime minister. It is striking that he has opened up foreign jobs to the left and centre, but kept those that deal with domestic reform in the hands of his closest advisers.

Not all the changes will be smooth. Mr Borloo and Mr Woerth will have equal cabinet status, so it is not clear which of them will have more say over fiscal policy, central to the Sarkozy reform agenda. On social matters, the perils of broad-based government emerged after Mr Hirsch raised objections—only to withdraw them—to Mr Sarkozy's plan for a non-reimbursable charge for visits to the doctor.

Implementation of these plans will have to wait for the new parliament. Two-round legislative elections take place on June 10th and 17th. Mr Sarkozy seems well placed to win a hefty majority. One poll this week, by TNS-Sofres, gave his UMP party a solid 40% of the vote, with 28% for the Socialists and only 15% for Mr Bayrou's centrist Democratic Movement. This would translate into 365-415 seats, out of a total of 577, up from the 359 the UMP has now. Mr Bayrou's party, bereft of many deputies who have defected to Mr Sarkozy, would fall to single figures.

In “Testimony”, the book he wrote as a pre-campaign manifesto, Mr Sarkozy argued that “the biggest mistake, which is common, is to undertake reforms sequentially. First you do pensions, then education, and then finally welfare or immigration. With this system, you often end up stopping after the second reform, exhausted by the battles over the first.” If he wins such a huge parliamentary majority, Mr Sarkozy will have the strongest possible mandate to carry out a big burst of reform—and to face down the street protests that seem sure to greet it.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

French foreign policy

The Kouchner effect

May 24th 2007 | PARIS
From The Economist print edition

A new minister signals a new foreign policy

Get article background

“OUR silence in the face of the 200,000 deaths and 400,000 refugees of wars in Chechnya is not tenable. Nor is our indifference in the face of the 200,000 deaths from ethnic massacres in Darfur. We need urgently to act, so that Darfur does not remain a shameful page of our own history.” France's new humanitarian foreign minister, Bernard Kouchner? Actually, his boss, Nicolas Sarkozy, during his campaign.

Mr Kouchner's appointment is more than just a deft political gesture. It reflects Mr Sarkozy's desire for a new French “doctrine”, based on values, designed to strengthen France's voice. One element is more emphasis on human rights, particularly in Darfur and Russia. This is where Mr Kouchner, co-founder of Médecins Sans Frontières, and a former UN governor in Kosovo, comes in. The day after taking office, he held a weekend meeting about Darfur.

A contempt for knee-jerk French anti-Americanism also unites the two men. Mr Sarkozy has called America “the greatest democracy in the world”, and denounced the “arrogance” (if not substance) of France's hostility to war in Iraq. Mr Kouchner was one of the few Frenchmen to see merit in the Iraq intervention, though he criticised its aftermath. Both would hope for better Franco-American relations, which soured after 2003 (though Mr Sarkozy has no plans yet for an official trip). One plus is the choice of Jean-David Levitte, France's ex-ambassador to America, as Mr Sarkozy's national security adviser.

There could be change in other areas too. Besides his European Union ambitions, Mr Sarkozy wants more transparency on Africa: he has downgraded the special Elysée unit that once dealt with African heads of state. He favours a Mediterranean Union to link countries around its rim. He is more sympathetic to Israel, less tolerant of Russia, and less obsessed with Lebanon than his predecessor. “The Quai d'Orsay is instinctively pro-China, pro-Russia, pro-Germany, anti-British and anti-American,” said one adviser before the election. “He will have to sit on them hard to take control.”

Other conflicts loom. Mr Sarkozy is against Turkish entry to the EU; Mr Kouchner is for. It is unclear how far Mr Sarkozy would back Mr Kouchner's belief in “the right to intervene” for humanitarian reasons in conflict zones. As for the Americans, they will be disappointed by Mr Sarkozy's doubts over keeping troops in Afghanistan, and they may not like being pressed on global warming. But, as Mr Sarkozy put it on election night, “friendship means accepting that friends can think differently”.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Romania and Bulgaria

Losers take all

May 24th 2007 | BUCHAREST
From The Economist print edition

A president triumphs at the polls—but is humbled by his loose tongue

FOR those hoping for political calm in Romania and Bulgaria, the European Union's newest members, last weekend was a reasonably good one. The Romanian president, Traian Basescu, won 74% in a referendum on his impeachment on May 19th, wrongfooting the minority Liberal-led government that suspended him. The prime minister, Calin Popescu Tariceanu, now concedes that the vote was a “waste of energy and money”.

What happens next depends largely on the Socialists, heirs of Romania's Communist Party. With 150 deputies, they are the largest party in parliament. The ruling coalition of Liberals and the Hungarian minority musters only 109. The best outcome would be an early election, perhaps to coincide with a European one this autumn. This is backed by Mr Basescu's Democrats, flushed with their referendum victory. One deal has the Socialists backing an early poll and dumping their more egregiously corrupt members in return for a big role in a post-election government.

Failing that, the Socialists might team up with the battered Liberals, in return for Mr Tariceanu's job. In theory, the Liberals could also continue with their minority government until the scheduled election in autumn 2008. But their plunging popularity suggests this would be unwise. On current form, they could even miss the 5% threshold for parliamentary seats.

Amid his enemies' confusion, Mr Basescu should be preparing for a glorious return to the Cotroceni Palace. But his triumph was marred by scandal. On the day of the referendum, Mr Basescu was hassled in a supermarket by Andreea Pana, a journalist who tried to film an interview on her mobile phone. Mr Basescu lost his temper, insulted her and grabbed the phone, telling her she could have it back on Monday. Unaware that it was still recording, he complained to his wife in the car about the “aggressive, stinking gypsy”.

Ms Pana, as it happens, is not Roma (gypsy) by ethnicity. But the incident reveals Mr Basescu's common touch (sometimes a strength) and his short-tempered manner (definitely a weakness). Many liberal-minded Romanians, including those who support his policies, condemned him; he has apologised. The scandal will dent his image among foreign admirers.

What would impress them would be a statesmanlike push in the battle against corruption. The EU is to issue a progress report on Romania and Bulgaria on June 27th. Both countries are struggling to root out corruption. In Romania the problem is distraction; in Bulgaria it reaches the heart of government. The prosecutor-general, Boris Velchev, promises early indictments in a case involving a top government man.

Bulgarian voters would like that. They shunned the coalition in a European election on May 20th. The winner was a party led by a populist conservative mayor of Sofia, Boiko Borisov, running on an anti-corruption ticket. But, as Mr Basescu's fortunes show, getting elected on a clean-government platform is one thing; making a lasting difference is much harder.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Russia and dissent

Old habits, new hypocrisy

May 24th 2007 | MOSCOW
From The Economist print edition

A case study of Moscow's method of dealing with the opposition

Get article background

THE Soviet Union dealt with its opponents in a harsh, decisive and clear way. Dissidents were prosecuted and imprisoned. Famous artists who spoke against the system were stripped of their citizenship and deported. Public protests were not allowed.

Today few Russians go to prison for their political or religious convictions; and Russia claims to be a democracy. But the thuggish ways in which the Kremlin deals with challengers is an insult to human intelligence and makes a mockery of the legal system, says Yuri Schmidt, a top lawyer. “The Soviet regime was more severe and cruel, but in some ways it was less hypocritical and false,” he declares.

Consider the response to protests at the Russia-European Union summit in Samara on May 18th. The Kremlin satisfied Germany's request to allow a rally by Other Russia, a motley coalition of its leading opponents, including Garry Kasparov and Eduard Limonov. But it then engaged in tricks redolent of the mischievous characters in Bulgakov's “The Master and Margarita”, not a respectable government. Activists were detained because they resembled criminals or were said to be carrying disguised drugs or grenades.

Before the summit, Denis Bilunov, Mr Kasparov's assistant, arrived in Samara by train. Police met him, opened his bags and, finding 95,000 roubles ($3,700), declared the notes counterfeit. After hours watching policemen copying out all the details, Mr Bilunov emerged with neither money nor time to prepare for Mr Kasparov's arrival. It did not matter, for when Mr Kasparov and Mr Limonov arrived at Moscow's Sheremetyevo airport to fly to Samara, they were told their tickets were dodgy and barred from boarding. The police took their passports, returning them only when the last flight had left. Meanwhile members of Nashi, a pro-Putin youth movement, dressed up as psychiatrists and distributed leaflets ridiculing Mr Kasparov's and Mr Limonov's “diagnosis”.

“The Kremlin was not in Sheremetyevo,” said Mr Putin's spokesman. “I don't think the issue of the non-arrival of a Russian citizen, even a famous one...will be on the summit agenda.” He was wrong. Angela Merkel, the German chancellor, said publicly that “if demonstrators throw stones, if they smash windows, then of course they should be curbed. But if someone has done nothing, if they just want to go to a demonstration, then it's different.” Inevitably, on state television Russians heard only the first sentence.

This is the sort of manipulation that Manana Aslamazyan, president of Educated Media Foundation (EMF), a non-governmental organisation that trains regional television journalists, fights. Recently EMF offices have been raided, computer servers and files seized, and Ms Aslamazyan and a colleague threatened with criminal charges. Her supposed “crime” was not to declare €9,500 ($12,300) brought into the country in January. (Only $10,000 can be brought in without a customs declaration.)

In the eyes of the Kremlin, any NGO receiving foreign cash is an agent of foreign intelligence. One EMF-trained television channel in Siberia has written an angry open letter to Mr Putin, signed by more than 2,000 journalists. But the Kremlin is unlikely to be impressed.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Germany's depressed east

Blossoming landscapes

May 24th 2007 | BERLIN, ROSTOCK AND WAREN
From The Economist print edition

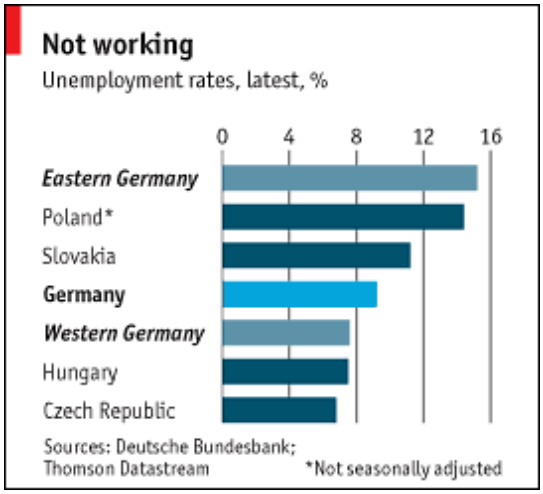
Is Germany's economic boom bypassing its eastern states?

Get article background

“ONLY one person promised blossoming landscapes,” says Peer Steinbrück. Looking proudly at Germany's booming economy, falling unemployment and bulging state coffers, the finance minister is trying to deflect objections that the five states of former East Germany have never enjoyed Helmut Kohl's 1990 pledge of economic nirvana. It takes a generation to help the new states to their feet, he says. Mr Steinbrück has no plan to change the “solidarity pact”, under which western Germany will subsidise eastern Germany until 2019.

Almost 17 years after unification, the new states have at least made some progress visually. A walk through the streets of central Rostock reveals the well-stocked flower beds, brightly coloured houses and outlets of Kaufhof, a department store, McDonald's, a fast-food chain, and Tchibo, a coffee shop, that are found in most western German towns. As Rostock prepares for the G8 summit in early June in nearby Heiligendamm, the mayor has planted signs saying “welcome” in 20 languages.

Yet appearances are deceptive. Since unification, some €1.5 trillion ($2 trillion) has been transferred east. Western Germany still hands over 4% of annual GDP, a net €80 billion, to eastern Germany, which is not being weaned off subsidies. Average unemployment of 15.2% is twice the western rate, and far higher than most other bits of central Europe (see chart). Wages are about one-third lower than in western Germany.



The government wants to aim subsidies more sensibly. “We used to spray our funds evenly everywhere to kick-start consumption, but now we need to focus on investment in areas of growth,” says Mr Steinbrück. Productivity is one-third below western levels. Annual sales of the 100 biggest companies in the five new states add up to those of Siemens. Of the top 500 German companies, only 19 come from the former East Germany.

In Mecklenburg-West Pomerania, Germany's poorest state, cities like Rostock are among the growth areas, thanks to a revival of shipping and tourism. Rostock has been through a rough patch. After unification, shipyards sacked thousands because the Russians, their main customers, could no longer afford their ships. But today the port makes money on ferry traffic to Scandinavia. Liebherr, a big maker of cranes, set up a new production site two years ago. Hotels are doing well: in the past 17 years, they have doubled their capacity. These are the region's new “lighthouses”.

Inland the picture is gloomier. Mecklenburg-West Pomerania is a flat agricultural state with 2,000 lakes, including Lake Müritz. Farm employment has dwindled from 200,000 in 1989 to 20,000, says Jürgen Seidel, the state's economics minister. There are few manufacturing employers. One is Mecklenburger Metallguss, in Waren, on the shore of Lake Müritz. It produced 130 propellers last year, including the world's biggest, weighing 130 tonnes with a diameter of 10 metres. Another booming business is a foundry in Torgelow in the state's east. It is a sign of a recovery, albeit from a low base, that 13,000 new jobs have been created in the state since April 2006, says Mr Seidel.

Yet there is little sign of growth in many parts of West Pomerania that border Poland, in the Altmark region in Saxony-Anhalt or in the region of Prignitz in Brandenburg. “Some of these towns and villages will slowly die,” predicts Mr Steinbrück. Unemployment in Demmin, in eastern Pomerania, is almost 30% of the workforce. The city's population has shrunk by a fifth in a few years. It is a fief of the far-right NPD, which won enough votes to enter the state parliament last September.

To close the gap, eastern Germany must grow by more than the rest of the country, points out Karl-Heinz Paqué, a former finance minister in Saxony-Anhalt. This is already being done in areas around Magdeburg (car components), Dresden (electronics) and Jena (optics). The rest of Eastern Germany has only 12 more years to discover more such “lighthouses”.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Spain's local elections

The peace test

May 24th 2007 | MADRID
From The Economist print edition

The prospects for Basque peace after Spain's local elections are not great

Get article background

LOCAL elections seldom matter. But as Spaniards vote for councils and mayors on May 27th, more than local politics is at stake. In the Basque country, peace is in the balance. Efforts by the Socialist prime minister, José Luis Rodríguez Zapatero, to strike a peace deal with ETA terrorists face a big test. Some observers expect ETA to resume its attacks after the vote. It all contrasts starkly with an end to political violence in another troubled region: Northern Ireland.

ETA's political ally, Batasuna, has no formal candidates in the election, thanks to a ban imposed in 2003. Demands for its reinstatement have fallen on deaf ears. Indeed, Mr Zapatero's government has put the banning law to wider use, to deal with some new militant separatists. Both they and the opposition People's Party are outraged. To the separatists, it has been too tough; to the PP, not tough enough. ETA may use the exclusion of Batasuna as an excuse to resume bombings.

Why have things apparently gone right in Northern Ireland but not in the Basque country? Spanish politicians say the two places are not comparable. Northern Ireland had two lots of terrorists—the IRA and Protestant paramilitaries. The Basques have but one: ETA. Some argue that peace deals are possible when two sides are at war, as in Northern Ireland, but not when one is fighting and the other is the state. A peace deal with a still armed ETA, the same logic goes, is impossible. The only solution is unconditional surrender.

Some Spaniards do not consider Northern Ireland such a success, either. They claim the Spanish model of intransigence practised before Mr Zapatero came to power in 2004 worked better. “The process in Northern Ireland has some very high costs,” says Rogelio Alonso, of Rey Juan Carlos University, pointing to the ruling alliance of hardline Protestants with Sinn Fein. “It has strengthened the extremes at the cost of moderates.” In any event ETA shows no signs of readiness to surrender: in December it killed two people in a bomb attack at Madrid's Barajas airport.

There are lessons to be learnt from Northern Ireland about getting terrorists to realise that violence is not helping them. Patience and fortitude, the negotiators' main virtues, are another. Mr Zapatero has made clear his admiration for Tony Blair's role in the Northern Ireland peace process. Advisers claim that he seeks Mr Blair's advice, though British diplomats say contact has been minimal. Mr Blair nevertheless offered Mr Zapatero encouragement at their last meeting in October.

One big difference between the two situations is that Mr Blair was backed by the opposition Conservatives. Mr Zapatero has gone it alone, because the PP insists on unconditional surrender. So any failures, airport bombs included, are potential vote losers. The future of the Basque peace process depends as much on the Socialists' showing at the local elections as on ETA's reaction. A general election is due next spring. A poor result this weekend could turn Mr Zapatero off the whole risky business of pursuing peace.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Charlemagne

Constitutional conundrums

May 24th 2007
From The Economist print edition

Peter Schrank

The battle over the constitution is likely to be won by the minimalists

Get article background

THE unconvincing versus the self-serving. That pretty much describes the two sides limbering up for a political scrap over the European Union's constitutional treaty, two years after it was thrown out in French and Dutch referendums.

As Europe's leaders prepare for their June summit discussion on salvaging bits of the treaty, two camps are forming, pitting the worthy countries that have accepted the old text (the ratifiers) against the troublesome ones which insist it must be less ambitious in both appearance and content (the minimalists). Do not expect high-minded debate between the two. The ratifiers' arguments are lofty-sounding but unconvincing. The minimalists' ones amount to naked self-interest. Which side triumphs will tell you much about how the EU ticks.

The first troublemaker, Poland, wants to go back on a deal to rejig voting weights, because the Germans gain too much ground relative to the Poles. Germany, as holder of the EU's rotating presidency, is the referee in this fight, so it prefers to offer the Poles something else altogether: language offering European solidarity to countries caught in an energy crunch (eg, if Russia turns off the gas taps). Whether this compromise works hinges on how far Poland's historic distrust of Germany is outweighed by its fears of today's Russian bullying. (If Poland takes the deal at the summit, somebody should send Vladimir Putin flowers.)

The other big troublemaker, Britain, is demanding a treaty small enough that it can be passed without a referendum (as is France). Ratifiers may fume, but nobody will be surprised if the Germans accordingly offer Britain an opt-out from criminal-justice policies that might, in a future treaty, be decided by majority vote. This could do the trick—unlike a second idea floating in the Brussels ether, to postpone the day that the charter of fundamental rights (a list of social and employment rights, bolted on to the constitution, which the British are against) takes effect.

If the minimalists' arguments are nakedly self-interested, they are at least more credible than those of the ratifiers. As an opening shot, this latter camp says it is offering a big and painful concession by dropping the symbols enshrined in the old text, from the name “constitution” to provisions on the EU flag, motto and anthem. This is bogus. Dropping symbols is not a concession, it is a ploy to make it easier to sneak big slabs of the constitution past voters. And it is meaningless: the gold-starred blue flag flutters all over Europe, even without a constitution.

There is something unconvincing about the way the ratifiers, led by diehard fans such as Italy, Belgium, Spain and Luxembourg, explain how their beloved constitution ended up in its present pickle. These friends argue (and may even believe) that their opponents are no more than a small, isolated group of sceptics whose true motive is to undermine the union. The Belgian foreign minister recently declared that the French and Dutch were now being more helpful, leaving only three problems: the British, Poles and Czechs. Another friend, the Italian prime minister, Romano Prodi, this week vowed to veto any overly minimalist treaty, in the name of the 18 countries that have already approved the original text. In the past two years, Eurosceptic views have been listened to "almost exclusively", Mr Prodi complained. It was now "time to listen" to the ratifiers.

The flaw in this line is that most French voters are not Eurosceptic and most Dutch ones are Europhile. That is why their votes were so damaging. The EU remains in denial over this. The conventional Brussels wisdom is that the referendums were not really about the constitution. French and Dutch voters had not even read the treaty. They were reacting against unpopular national governments that ran wretched campaigns. They were expressing alarm at past and prospective enlargement (especially to Turkey), globalisation and even the fragility of society (the Dutch referendum came a few months after the murder by a Muslim fanatic of Theo van Gogh, an Amsterdam film-maker).

What voters want

There is something to these arguments, but not much. Yes, many voters had not read the constitution: but that is how democracy works. In elections, voters do not read party manifestos, either. That does not stop them understanding what candidates broadly stand for. Even indifferent French and Dutch voters could sense that they were being offered a grandiose document, drawn up by EU bigwigs, calling itself a constitution, and proposing "more Europe" as the cure for most ills.

True, the hairiest French No voters seemed incensed by capitalism itself. And many Dutch voters were oddly obsessed with the idea that the EU was crushing their cultural identity. They remain fussed about this, to judge by the voters whom Charlemagne met this week in the Dutch city of Gouda, home of the famous cheese. But dig more deeply, and a more rational core emerges to explain the No votes.

In the debate over the merits of state control against free markets, the EU is closer to the free-market camp than the average French voter. By restating the Brussels orthodoxy on the merits of competition, the constitution offered a painful reminder that France no longer calls the shots. As for the Dutch, back in 2005, in the wake of both a new single currency and enlargement of the union to take in ten new members, they felt Europe was rushing ahead without them. Arnoud Rijneveld, a business student in Gouda, argues simply that Brussels was going too fast—and that Dutch people wanted to hit the brakes for a while.

On the eve of the June summit, the French and Dutch No votes actually look rather rational. The Dutch forced the union to pause for two years. The new French president, Nicolas Sarkozy, will be a dominant figure at the summit as he pushes others towards accepting a pared-down treaty, if they want anything at all. And which side is favourite to win? That's easy. In the European Union, it will always be self-interest.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Relations with Russia

Out of reach

May 24th 2007 | LONDON AND MOSCOW
From The Economist print edition

AP

Britain's attempt to extradite Andrei Lugovoi marks a new low in relations with Vladimir Putin's Russia

FOR someone accused of so sensational a crime, Andrei Lugovoi seemed insouciant when he appeared on Russian television on May 22nd—hours after Britain's Crown Prosecution Service (CPS) announced its intention to prosecute him for the murder of Alexander Litvinenko. What, Mr Lugovoi asked, could possibly be his motive for poisoning his fellow KGB veteran, who died slowly and excruciatingly in London last November, after ingesting polonium?

Six months on, and four since Britain's anti-terrorism police passed their file on it to the prosecutors, the case was beginning to look as if it would never be solved. Alas, despite the CPS's decision to press charges, and the demand for Mr Lugovoi's extradition from the British government that followed, it still almost certainly won't be.

Citing a constitutional bar, Russian officials immediately refused to hand Mr Lugovoi over. He could theoretically be tried using British evidence in a Russian court: a Kremlin spokesman says the CPS's allegations will be examined as part of a separate Russian inquiry into Litvinenko's death. But Russia's grudging and superficial co-operation with the British police does not inspire hope. Nor does its routine failure to explain the too-frequent deaths of the Kremlin's critics. Like many ex-KGB officers, Mr Lugovoi has prospered in business during the presidency of Vladimir Putin; Litvinenko, by contrast, denounced corruption in the FSB, one of the KGB's post-Soviet successors, fled to Britain and tried to incriminate Mr Putin in assorted atrocities, including (on his death-bed, reportedly) his own murder.

So Mr Lugovoi may never be obliged to explain why radioactive traces were found at assorted London restaurants and hotels that he visited, in planes that he flew on and at the bar where he and his associates (not accused by the CPS, perhaps for lack of evidence) met Litvinenko on the day he fell fatally ill. Mr Lugovoi has maintained that he ought to be considered a co-victim in the case rather than a suspect, and he now promises revelations of his own. These are likely to involve Boris Berezovsky, a renegade “oligarch” living in Britain whom the Kremlin has tried to implicate in the murder, and who, coincidentally or otherwise, has employed both Mr Lugovoi and Litvinenko. And even if whoever delivered the poison were brought to trial, he may not know who ultimately ordered the killing. If Mr Lugovoi did it, and does know, he may be more worried about suffering an “accident” in Russia (to keep him quiet) than about facing a British jury.

Rather than justice, the most likely outcome of the charges, and of the Kremlin's intransigence, is a further deterioration in Anglo-Russian relations—already testy, even by the standards of Russia's snarling

diplomacy with most Western countries. Last year Britain's well-meaning ambassador to Moscow was harassed for months by Kremlin-sponsored thugs; the work of the BBC and the British Council, a culture agency, has also been impeded. Britain's refusal to extradite Mr Berezovsky, who intermittently calls for Mr Putin's overthrow, is part of the explanation.

But that dispute, like the reaction in Russia to the CPS's announcement, points to a more fundamental difference. Extrapolating from their own practices, many Russians agree with Mr Lugovoi's avowed judgment that the charges against him are “political”, just as they refuse to believe that extradition cases such as Mr Berezovsky's are decided by British courts, rather than the government. “We hope that the CPS is not involved in politics,” says the Kremlin spokesman dryly.

Quite how low relations will now sink depends on how hard the British push their extradition claim: they could, for example, raise it at the forthcoming G8 summit. The question of motive, now being posed by much of Russia's state-controlled media as well as Mr Lugovoi, may be designed to call Britain's bluff, forcing the British authorities either to finger the Kremlin or FSB directly, or shut up. For their part, some British diplomats seemed at first to be hoping that the CPS would keep *shtum*. The British government may now have concluded that there is little left to lose by making a stink.

If so, BP may beg to differ. The British energy firm has partial control of a giant Siberian gas field that Gazprom, Russia's state-controlled gas behemoth, has long coveted. The government is using bogus contractual technicalities as an excuse, just as environmental gripes recently helped Gazprom to take charge of a giant energy project on Sakhalin island, led by Royal Dutch Shell. Pique over the Litvinenko scandal may accelerate the process.

Still, a more robust attitude is probably wiser than the kid-glove conciliation that Tony Blair and others have mostly used with Mr Putin. “Murder is murder,” said the prime minister's spokesman this week. But Litvinenko's death wasn't simply murder: it was the assassination in London of a British citizen, as he had become, using an imported radioactive substance that contaminated many other Britons too. All of the plausible explanations or culprits (Mr Putin; avenging security agents; infighting among Kremlin factions) are alarming, as are any of the ways in which the assassins could have acquired the polonium. If nothing else, the Litvinenko case has proved that Russia's nasty internal politics are a worry for others too.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

End of an era

May 24th 2007
From The Economist print edition

Getty Images

A fire that broke out in the early hours of May 21st, and may have been started deliberately, left the Cutty Sark badly damaged. The 19th-century tea clipper was one of the last large trading vessels to be built before steam replaced sail. She was part of the infrastructure of the first age of globalisation, when China exported commodities and imported manufactures, rather than the other way round; she would sail to China with a cargo of textiles and return carrying tea. On one trip back she lost her rudder but still made it home. Her admirers hope the same resilience will steer her back from the flames.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Energy policy

More heat than light

May 24th 2007
From The Economist print edition

Britain has had three national policies in ten years. And it still hasn't made up its mind about nuclear energy

“ENERGY policy...could be as crucial to our country's future as defence,” wrote Tony Blair on May 23rd, the day his government's long-awaited white paper on the topic appeared. The enemies, according to the prime minister, are climate change and the precariousness of future supplies. Britain's oil and gas reserves are dwindling, and many of its dirty coal stations and elderly nuclear-power plants will soon close.

Neither development is exactly unforeseen, nor is this Mr Blair's first attempt to set Britain's energy course in light of them. The government's 1998 paper was a sop to the coal industry that failed to grasp the severity of the coming crunch. By 2003 Mr Blair was aware that shortages and climate change both loomed but decided that renewable energy could solve them. More recently, his thoughts have settled on a different saviour: nuclear energy.

For Mr Blair, atomic energy ticks all the right boxes: it produces little carbon, the technology is proven and uranium can be bought from stable, friendly countries such as Australia and Canada. But his plans for a nuclear revival were upset in February when the courts upheld a complaint from environmentalists that an earlier consultation on the matter had been flawed. The government was forced to start it all again.

So the nuclear guest of honour was embarrassingly absent from this week's festivities. Alistair Darling, the trade and industry secretary, was reduced to repeating the same fine words that Mr Blair has been mouthing for the past two years. He said that the private sector would have to pay for nuclear-power plants without government help, and was even unable to offer an official “statement of need” that would help them get planning permission to do so. What boost there was for nuclear power came from a separate proposal to speed planning for big infrastructure projects (see article). But ministers expect to publish the white paper's nuclear core in the autumn.

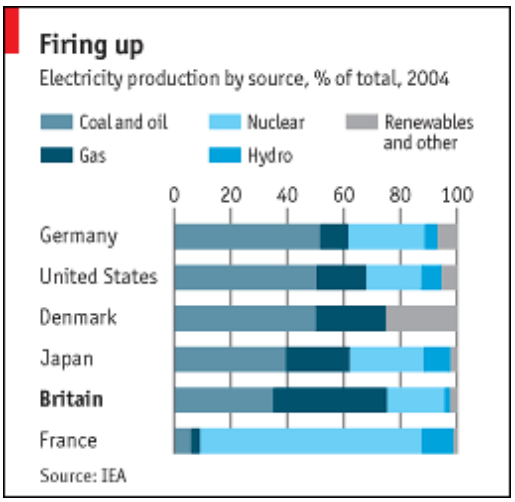
Renewable-energy aficionados found more in the policy paper to ponder. The government may have sworn off interfering with the market for nuclear power, but it enthusiastically tweaked its £500m ($1 billion) annual subsidy for renewable energy, the Renewables Obligation (RO). When the RO was launched in 2002, ministers insisted that decisions on what specific technologies to plump for would be left to the market: there would be no attempt to “pick winners”. So most of the money has gone to technologies that were nearly commercially viable without help: onshore wind farms, burning landfill gas and co-firing coal plants with wood chips, for example. Though windmills have since proliferated, a combination of planning woes and the difficulty of getting connections to the electrical grid have left the government's goal of getting 10% of electricity from renewable sources by 2010 looking more and more elusive.

This week Mr Darling performed a smart U-turn, announcing plans to split the RO into four different levels of subsidy. The most speculative technologies (such as wave and tidal power) will attract the most help, whereas proven methods will have their handouts cut.

Fans of renewables have given the proposals a guarded welcome, although some question whether the new subsidies will be generous enough to bring marginal technologies to market. Mr Darling promises to re-examine the subsidy bands every five years. “That leaves the system worryingly open to lobbying,” points out Dieter Helm, an economist at Oxford University.

The government's energy wonks were full of other bright ideas too. There are various pledges on energy efficiency (incandescent light bulbs will be phased out by 2011, for example). A mandatory cap-and-trade scheme for carbon emissions will be set up to catch

firms that do not fall under the existing European Union Emissions Trading Scheme. “We're for the idea in principle,” says Matthew Farrow of the Confederation of British Industry, a lobbying outfit. “But ministers must make sure the costs of red tape and form-filling don't outweigh the benefits.”



Mr Blair describes the government's proposals as “practical but radical”. Not everyone is so complimentary. Alan Duncan, the Conservative spokesman on energy, accuses the government of dithering. He points out that a long-planned competition to build a demonstration carbon-capture and storage power plant to sequester emissions from burning fossil fuels is only now getting off the ground. BP, a big oil firm, had intended to enter a project in Scotland but was so peeved by the long wait that it pulled out.

Other firms too are weary of the constant changes to what is—or so ministers insist—a policy for the long term. More could be in the works. Gordon Brown, the prime minister-in-waiting, is thought to be keen on dismantling the Department of Trade and Industry and creating a separate energy ministry, whose boss would have a seat in the cabinet. And “if the Tories win in 2009 we could see another bloody sea-change,” sighs one developer. Indeed, from businesses' point of view, there is a dizzying profusion of goals to meet: besides several home-grown pledges on renewable generation, biofuels and carbon-dioxide emissions is a new European agreement that requires 20% of total energy used to come from carbon-free sources by 2020.

Some of this confusion is inevitable, for modern energy policy involves adapting to a number of moving targets. The science of climate change is being constantly refined, and political developments abroad may upset the best-laid plans. But equally, much of what Mr Blair is worried about—the closure of nuclear plants, the decline of the North Sea—was apparent years ago. If he truly believes energy policy is as important as defence, he or his successor needs to stop tinkering with the battle plan and allow the troops to get on with it.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Planning shake-up

So much for localism

May 24th 2007
From The Economist print edition

Labour cannot control its itch to centralise

CURIOUSLY, the biggest boost to nuclear power this week came not from the government's energy review but from separate proposals for shaking up the planning system. Critics have long complained that it takes too much time and effort to get permission to construct a large power project, or even to put solar panels on the roof of a house. On May 21st Ruth Kelly, the minister for communities and local government, proposed streamlining both.

At present big infrastructure projects are considered by public inquiries, which give local people the opportunity to object but often prove protracted. The government will sweep away this regime by setting up a national planning commission, which will decide upon applications generally within less than a year. Ms Kelly says that the new body will “listen closely to local concerns”. It will be expected to approve projects that meet national needs identified by the government, however, unless adverse local consequences are deemed to outweigh local and national benefits.

This weakens local say over big planning projects such as nuclear power stations, airport runways, waste incinerators and wind farms. Another reform will abolish the “need test” which now constrains the building of out-of-town superstores and replace it with something that may prove easier to get around. Many will be glad to have more freedom to make minor changes to their homes. But those who think that Britain needs to push power down from the overweening centre instead have not been slow to criticise the proposals.

Ms Kelly is right to say that the present system needs reform. Planning inquiries often re-invent the wheel. If an application is received to build a nuclear-power plant, for example, the inquiry considers the national case for more nuclear power as well as the specific location of a plant to provide it. The two issues should be separated.

She is less convincing when she argues that the current system is broken beyond repair. Delays could be reduced by imposing stricter time limits on inquiries without the other changes. In any case the main reason why it has been hard to upgrade Britain's infrastructure—the road network, for example—is that ministers have had cold feet over the cost of such big capital investments.

All in all, it has been an uncomfortable week for Ms Kelly. On May 22nd she had to announce an embarrassing delay in the introduction of mandatory “home-information packs”. These guides, paid for by sellers, were supposed to ease the fraught business of buying a house; they are likely to do little but provide employment for thousands of housing “energy assessors” still in training. Their launch, due on June 1st, has been postponed to August, and then only for big houses. Ms Kelly remains committed, it seems, to this deservedly unpopular reform.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Whole Foods Market

Organic Albion

May 24th 2007
From The Economist print edition

A Texan grocer is trying to change the face of British retailing

THINK Harrods food hall, with its oyster and champagne bars, sushi counter and mile-long charcuterie. Add granola, a DJ, a poetry corner and hordes of young shoppers with name tags who speed-date up and down the escalators while filling their trolleys with organic treats. The latest American assault on British retailing comes not from the likes of Wal-Mart, with its sell-'em-cheap philosophy, but from Whole Foods Market, the world's largest natural-foods chain. In June it will open for business in an art-deco palace in London's Kensington High Street.

The opening of yet another shop selling fancy food in one of Britain's richest neighbourhoods would normally merit little attention. But Whole Foods' entry is being closely watched by its competitors. The firm, which started out as a hippy shop in Texas and still has fewer than 200 stores, has forced a transformation of American food retailing that is disproportionate to its size.

As retailing polarises between stores that sell cheap goods and those that sell luxury stuff, Whole Foods has seized the top end. Although its breakneck sales growth has slowed slightly of late, it owes its success to exploiting two trends. The first is that people nowadays will pay a lot more for food they think is fresher and healthier. Whole Foods plays to this by spraying its great pyramids of bright red apples and head-high vegetable hedges so that they glisten as with morning dew.

The second is that shoppers are looking for entertainment, not just groceries. Whole Foods aims to create the atmosphere of a festive street-market with abundant displays of fresh food and tasting stations. More radically, its singles nights (when “like-minded people can meet like-minded people”), massage centres and meditation classes make shopping seem less a chore than an adventure.

Is Britain ripe for such merchandising? Demand for organic products is growing by about 30% a year, as Britons age and grow more concerned about their health. A survey by IGD, a grocery think-tank, found that almost two-thirds of consumers cite health as a factor influencing their food purchases. Only about half come up with such mundane reasons as how easy something is to cook.

Appealing as the Whole Foods approach may be, however, it is not clear that it will work as well in Britain as it has in America. Finding space for wide aisles and yoga studios is more difficult in a country with a restrictive planning system and astronomical property prices. Labour costs are higher in Britain too, which adds to the cost of keeping those fruit pyramids neatly stacked. Such extravagance requires high prices and high turnover. But it is harder to sell a trolley-load to pedestrians than it is to the average car-loving American. Whole Foods may find that it has to price its products beyond the reach of most shoppers.

But then Whole Foods doesn't want a lot of customers, just well-heeled ones. It plans to open no more than 40 stores in Britain, and only in areas where there are lots of rich graduates.

The problem for mainstream grocers is that those are exactly the shoppers they want too, for a small share of their customers accounts for a big share of their profits. So although Whole Foods is a niche store planning a limited number of outlets, its impact is likely to be pervasive. In America, retailers as big as Wal-Mart, Kroger and Safeway have been forced to spend billions of dollars improving their offering of fresh produce, even in towns without a Whole Foods Market nearby. Expect something similar in Britain.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

League tables and the NHS

Top of the class

May 24th 2007
From The Economist print edition

Is the health service really so good?

Get article background

"SICKO", the latest film from the left-wing American agitpropagandist Michael Moore, has already drawn a lot of comment for its favourable comparison of health care in Cuba with that in the United States. But Mr Moore does not reserve all his praise for the tiny Communist island. He lavishes admiration on Britain's National Health Service, presenting a vision of helpful staff and generous treatment.

Britons themselves might doubt details of this assessment. In the past decade the government has increased spending on the NHS at a record rate, but the political pay-off has been abysmal. Polls show that people now reckon the Conservatives have better policies on health than Labour does. The number telling pollsters that the NHS has become worse since 1997 greatly exceeds those who say it has improved. On May 23rd Patricia Hewitt, the health secretary, fought to survive a vote of no confidence in the House of Commons.

Yet a recent report from the Commonwealth Fund, a health-policy think-tank in America, seems to side with Mr Moore. Comparing health care in six developed countries, it ranks Britain top. Germany comes second, followed by Australia and New Zealand in joint third place, and then Canada. America is last. Britain has seized the top spot after coming third in the two previous surveys, in 2004 and 2006.

The report is a welcome antidote to unthinking pessimism about the NHS, but its rosy view is open to question. The survey uses 69 indicators to rank the countries in five areas: quality, access, equity, outcomes and efficiency. Offering free health care to all, the NHS does unsurprisingly well on equity, but it comes fourth on health outcomes and access. What pushes it into top place overall is that it ranks first on quality and efficiency.

On both of these counts, the scoring is debatable. Britain gets the best mark for quality even though it has the joint-worst score for the proportion of patients reporting an infection in hospital. This seems a more important failure than coming last, as Canada did, in prompting doctors by computer to give patients a test result. Yet both indicators are given the same weight.

The efficiency rating is based on an eclectic range of indicators, such as health-care spending as a share of GDP and whether patients visit hospitals' emergency departments for conditions that could have been treated by family doctors. The individual comparisons may be revealing, but the sum of the parts does not measure efficiency, which is how effectively a system turns inputs into outputs.

Perhaps most important, the indicators are skewed towards the services of family doctors. Britain has long won plaudits for the primary care delivered by its GPs. The real worries have been about hospitals, especially the long waiting times for elective operations. Although excessive waits have been slashed, there are still almost 700,000 people on the waiting list.

And now it looks as if Labour's reforms in primary care are backfiring. A new contract for GPs pushed up their average pay by 23% in its first year, though their workload dropped by more than five hours a week between 2004 and 2005. Practices open on Saturdays are a thing of the past.

Gordon Brown, the prime minister to be, has promised to improve access to GPs at weekends and in the evenings. He will have to do more. However the NHS ranks internationally, what counts at home is that Labour has got poor value for the extra money poured into it.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

The Hay Festival

All we like sheep

May 24th 2007
From The Economist print edition

Flocking to Britain's best-known literary festival

GORDON BROWN, Britain's prime minister-in-waiting, has been coasting around the country with audiences but no opponent. There is one appearance he is soon to make where the competition to impress is stiff. On May 26th he goes to Hay-on-Wye to talk about his new book, “Courage: Eight Portraits”, and the tiny Welsh village will be a tough sell. Since America's former president Bill Clinton dubbed the annual literary festival there “the Woodstock of the mind” in 2001, the event has been a magnet for public figures. Mr Brown will be hard pressed to hold his own against memories of Mr Clinton's eloquence or that of his former vice-president Al Gore, the most recent transatlantic political star to grace the Hay Festival.

Although Mr Brown's event sold out faster than any other this year, he is only one of the British politicians who will take their places among the authors and historians, academics and rock stars, gardeners, comedians, artists, string quartets, film-makers, chefs, opera singers and the odd sheep who throng to this extravaganza. For Peter Florence, the festival's director, Hay has always been about more than books, which may explain its success over the past two decades.

The 1988 festival—plotted “around the kitchen table” by Mr Florence and his father when the former was barely out of university—had just 2,400 visitors and was financed by the winnings from a poker game. This year's ten-day party may attract 160,000 visitors; BSkyB's Sky Arts has paid handsomely to broadcast it, outbidding the BBC and Channel 4. The days when a writer could ask: “Hay-on-Wye, is that some kind of sandwich?” as the playwright Arthur Miller did before appearing there in 1990, are well and truly over.

Not that there haven't been some hairy moments along the way. In 2000 damage from heavy rainfall left the festival with a £50,000 ($99,250) deficit; in 2001 an outbreak of foot-and-mouth disease kept tourists away. But the unflappable Mr Florence invited Mr Clinton and Sir Paul McCartney, a pop star, to show up, and the festival has “never been broke since then”. That year also saw the launch of a foundation which gives free tickets to local schoolchildren and university students, swelling audiences further.

In recent years the Hay Festival has come under fire for being too commercial, too glamorous—less purely literary than festivals at Cheltenham and Edinburgh, for example. Its critics, some of whom are disgruntled writers who have not been invited or directors of less widely attended events, prefer poets to presidents and local radio stations to big broadcasters.

But for literary content it is in fact hard to beat Hay. This year four Nobel laureates will be appearing—Wole Soyinka, Orhan Pamuk, Derek Walcott and Wangari Maathai—along with a lot of local poets. Audiences seem more diverse than at Cheltenham or Edinburgh: only a smattering of those who make the trek to Wales come from the affluent south-east. Everyone who works for the festival lives in or around the village, including the director and his family, and tickets are cheap: most events cost about £5.

Proof of the pudding, perhaps, is that the Hay Festival has caught on abroad. Mr Florence helped to set up similar events in Italy and Brazil, which are now independent. He runs Hay Festivals in Spain and Colombia, and in 2008 will start new ones in Kenya, California and Florida. And talks are now under way about launching festivals in Moscow, Argentina and Nicaragua. Not bad for something cooked up in a Welsh kitchen.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Bagehot

Last call

May 24th 2007
From The Economist print edition

Steve O'Brien

The pseudonymous columnist's thoughts before handing over to a new Bagehot

NEXT week, after a stint of over five years, this Bagehot will hand over to a fresh new one a month before the arrival on the scene of a fresh (well, sort of) new prime minister. This will therefore be a shamelessly valedictory last column.

Although Tony Blair has been the dominant figure on this page during those five years, his power has waned progressively. As this Bagehot took up his pen, Mr Blair was about to make the decision from which his premiership never recovered. Whether or not the “Crawford deal” with George Bush in April 2002 was the explicit commitment by the British prime minister to regime change in Iraq that some believe, it was the moment when Mr Blair made up his own mind on the matter. Meeting him on a terrace overlooking the garden at 10 Downing Street a few months later, there was little room for doubt about which path he had resolved to take.

This column rather admired Mr Blair's confidence that military force could be used to make the world a slightly better place, as he had shown first in Sierra Leone and then in Kosovo. It also sympathised with his belief that doing good on any scale would almost always require positive American engagement.

Yet it also recognised how risky the enterprise was and how weak support for it was in Mr Blair's own party. It predicted—wrongly, as it turned out—that anything short of a grateful Iraqi people enthusiastically embracing democracy while truckloads of hideous weaponry were uncovered would make Mr Blair's position untenable. The mystery is still why it didn't.

Part of the answer is that Iraq has been a slowly unfolding tragedy. There was no climactic moment when an attempt to oust the prime minister became inevitable; and certainly the careful reports by Lords Hutton and Butler into aspects of Iraq did not provide any. That the Tories had locked themselves into supporting the war and showed few signs of electoral revival also helped to save Mr Blair's skin. So did the inveterate cautiousness of Gordon Brown, who chose to wound rather than strike during Mr Blair's moment of greatest weakness in 2004. Even so, Mr Blair had his “Easter wobble”, when he came closer to quitting than this column, at the time, believed.

Another central theme has been what became known in Downing Street as “the TBGBs”—the dysfunctional relationship between Mr Blair and his chancellor, Mr Brown. The problem was that until the former home

secretary Charles Clarke's explosion last September, nobody was prepared to say on the record what everybody talked about obsessively off the record. Even though what was going on had the potential to make government ineffective, and in some ways did, it could be written about only with the weasel words of diary gossip.

Regular readers may have noticed that in describing these periodic spats, Bagehot tended to side with Mr Blair. There were several reasons for this. For all the chancellor's giant intellect, by and large Mr Blair's ideas, whether for reforming public services, reviving the universities or improving pensions, were usually better than Mr Brown's. It was often not clear whether Mr Brown was pitting himself against the market-based policies Mr Blair favoured for ideological or baser political reasons.

Personal experience of the two men also had its effect. An appointment with Mr Blair meant looking forward to a wide-ranging, informative and usually humorous conversation (however grim the political backdrop). Much rarer meetings with Mr Brown were stiff and unrevealing. Although Mr Blair was frequently exasperated by Mr Brown's behaviour, he tolerated it with a degree of patience. By contrast, Mr Brown sanctioned attacks on Mr Blair and his closest supporters with destructive zeal. It was hard not to conclude where the greater fault lay.

Had Mr Blair been happier about his probable successor, he might have left office sooner. One of the questions this column has tried to answer is what sort of prime minister Mr Brown will make. Once he is no longer gnawing his nails to the quick from thwarted ambition, he may become as formidable as his intelligence and moral seriousness suggest he should. Or he may turn out to be pretty frightful. The next Bagehot will make that call.

The need for steel

The final recurring theme familiar to readers was the sheer ineptitude of the Tories under various leaders until the appearance of David Cameron. Like Mr Blair before spin, Iraq, the cash-for-honours inquiry and time took their toll, Mr Cameron has the precious ability to make people feel optimistic. He also understood from the start that before his party could get even a hearing it would have to persuade voters that it meant well.

The local elections earlier this month and recent opinion polls suggest he has partially achieved that. But there are large sections of his party that remain unreconstructed, as do most of the newspapers that think of themselves as Tory-supporting. The reaction to last week's speech by David Willetts, the Tory education spokesman, perfectly illustrates Mr Cameron's difficulty. Even before Mr Cameron became leader, he made it plain that building new grammar schools was not his preferred answer to stalling social mobility and educational standards. Yet Mr Willetts's confirmation of this has brewed up a storm among Tory MPs, party activists and those supposedly helpful newspapers. The pressures on him from a sceptical party are mounting. Behind his relaxed manner, Mr Cameron has some steel. Over the next few months, he will need every ounce of it.

Like his predecessor, this Bagehot has neglected the Liberal Democrats. They are in the odd position of going backwards under a disappointing leader while hoping, with good reason, that they will end up holding the balance of power after the next general election. They are important, but not necessarily interesting to write about. The next Bagehot takes on that burden.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Cyberwarfare

Newly nasty

May 24th 2007
From The Economist print edition

Peter Schrank

Defences against cyberwarfare are still rudimentary. That's scary

IMAGINE that agents of a hostile power, working in conjunction with organised crime, could cause huge traffic jams in your country's biggest cities—big enough to paralyse business, the media, government and public services, and to cut you off from the world. That would be seen as a grave risk to national security, surely?

Yes—unless the attacks came over the internet. For most governments, defending their national security against cyberwarfare means keeping hackers out of important government computers. Much less thought has been given to the risks posed by large-scale disruption of the public internet. Modern life depends on it, yet it is open to all comers. That is why the world's richest countries and their military planners are now studying intensively the attacks on Estonia that started four weeks ago, amid that country's row with Russia about moving a Soviet-era war memorial.

Even at their crudest, the assaults broke new ground. For the first time, a state faced a frontal, anonymous attack that swamped the websites of banks, ministries, newspapers and broadcasters; that hobbled Estonia's efforts to make its case abroad. Previous bouts of cyberwarfare have been far more limited by comparison: probing another country's internet defences, rather as a reconnaissance plane tests air defences.

At full tilt, the onslaught on Estonia was also of a sophistication not seen before, with tactics shifting as weaknesses emerged. “Particular 'ports' of particular mission-critical computers in, for example, the telephone exchanges were targeted. Packet 'bombs' of hundreds of megabytes in size would be sent first to one address, then another,” says Linnar Viik, Estonia's top internet guru. Such efforts exceed the skills of individual activists or even organised crime; they require the co-operation of a state and a large telecoms firm, he says. The effects could have been life-threatening. The emergency number used to call ambulances and the fire service was out of action for more than an hour.

For many countries, the events of the past weeks have been a loud wake-up call. Estonia, one of the most wired nations in Europe, actually survived pretty well. Other countries would have fared worse, NATO specialists reckon.

National security experts used to dealing with high-explosives and body counts find cyberwarfare a baffling new theatre of operations. In Estonia's case, “botnets” (swarms of computers hijacked by surreptitiously placed code, usually spread by spam) swamped sites by deluging them with bogus

requests for information. Called a “distributed denial of service” (DDOS) attack, this at its peak involved more than 1m computers, creating traffic equivalent to 5,000 clicks per second on some targets. Some parts were highly co-ordinated—stopping precisely at midnight, for example. Frank Cilluffo, an expert formerly at the White House, says that the attack's signature suggests that more than one group was at work, with small-time hackers following the initial huge sorties.

Most countries have been complacent about guarding information infrastructure. In America, a congressional committee for computer security has given failing grades to many of the federal bodies it scrutinises. The Department of Homeland Security supposedly has a “cybersecurity czar” but the throne has not yet found a steady occupant.

Private firms have had more experience in fighting off internet attacks. Organised crime gangs, often from Eastern Europe, extort money from gambling and pornography sites by using botnets to make them unreachable. Last week a large DDOS attack hit YLE, Finland's public broadcaster. This week Britain's *Daily Telegraph* was hit. No political or financial motive was apparent. A Romania-based hacker led the Finnish attack.

Firms of varying competence and credibility peddle technical solutions. The typical protection against DDOS attacks is to buy lots of extra computers and bandwidth to handle an unexpected spike in traffic. “Mirroring” content across several servers means the cyber-attackers must hit many more targets simultaneously before disrupting anything. A system's architecture helps too: Estonia's open approach, with its built-in flexibility and resilience, and co-operation between the state, business and academics, worked well. Mr Viik hopes this will deter those trying to build cyberdefences on a military or state monopoly model.

Counterattacks are possible, but tricky. Security firms' staff can pose as hackers to infiltrate cybergangsterdom. This used to be a mere battle of wits. Now there are real fears of violence. “It's changed now that big money is involved. It is not beyond the realm of imagination that someone might be targeted,” says Mikko Hyppönen of F-Secure, an internet security firm.

But technology and sleuthing offer only a partial fix. The real question facing industrialised countries is how to create a legal environment that counts cyberaggression not as a kind of practical joke, but a grave breach of the legal order, akin to terrorism, international organised crime, or aggression against another state.

NATO is rethinking its position. It is designed to protect members against physical attack. When Estonia appealed for help it could only send an observer to Tallinn to monitor the attacks. For now, informal alliances are more useful. Internet companies in friendly countries such as Sweden headed off many of the attacks before they even reached Estonia. Ken Silva, the security chief at VeriSign, which runs big chunks of the internet's domain-name system, advocates defences at the core of the network to tackle malicious data-packets before they reach their target. But finding agreement among the world's privately run internet networks is hard.

The urgent need is for an international legal code that defines cybercrimes more precisely, and offers the basis for some remedies. The Council of Europe, a continent-wide talking-shop that is the guardian of many international legal conventions, has a treaty on cybercrime dating from 2001. Acceptance has been partial. From overseas, America and Japan have signed up; Russia so far hasn't.

The International Telecommunication Union, which unites all 191 countries that use the world telephone system, hopes to take the lead in pushing for a global convention against cybercrime. Alexander Mtoko, its expert on cyberwarfare, says the key issue is anonymity: “We are in an industry where there is no control, no rules, no identities—it's the wild west. But for critical applications you have to know who you are dealing with.” NATO experts agree. At a minimum, any international cybercrime convention is likely to oblige internet service providers to co-operate in blocking DDOS attacks coming from their subscribers' computers.

Yet the underlying problem is the internet itself. Wreaking havoc with anonymous telephone calls is hard. The internet's inherent openness allows hackers to hide. Yet that also helps make it cheap and innovative. Some countries may be more willing than others to trade freedom for security.

Mr Viik thinks a new global cybersecurity treaty may be reached by 2012. But victory will never be complete, thanks to the asymmetry between cat and mouse, notes Bruce Schneier, a security expert. “It is easier to come up with a new attack than with a new defence,” he says. The strongest defence, says

Mr Cilluffo, may be resilience: “the ability to reconstitute quickly, recover and absorb.”

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Internet history

Greatest hits

May 24th 2007
From The Economist print edition

Milestones in the history of information warfare

1986—The Cuckoo's Egg: A Soviet-backed hacker in Hanover, Germany, is caught breaking into computers at America's Lawrence Berkeley Labs to steal missile-defence secrets.

1998-99—Moonlight Maze: America traces a series of computer break-ins at the Pentagon, NASA and elsewhere to a computer in Russia (which denies involvement). Many files containing classified information are compromised.

1999—Kosovo: Chinese hackers break in and vandalise American government websites in retaliation for the bombing of the Chinese embassy in Belgrade by American aircraft. The White House website closes for three days.

2000-01—Middle East: Israeli and Arab hackers vandalise and crash each others' websites over a four-month period. Attacks also occur against telecoms firms supplying internet connections.

2001–America v China: After an American spyplane and Chinese fighter collide, hackers from both countries deface or crash the other's public and private-sector websites. The White House and *New York Times* sites are briefly brought down.

2006—Sneaky Word Doc: An American State Department employee opens an e-mailed file that secretly opens a backdoor in the computer system, allowing the theft of data. As the problem escalates, the agency cuts internet access, leaving some officials offline for weeks.

2007—Netwarcom: Officials at America's Naval Network Warfare Command (Netwarcom) accuse China of sponsoring hundreds of suspicious hacking incidents each day against military and private-sector computer systems to steal technology, gather intelligence, probe defences and install “sleeper” software.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD INTERNATIONAL

Humanitarian aid

Weighed and found wanting

May 24th 2007
From The Economist print edition

Test us as much as you like, say providers of help to the needy

GO ON, check us out then—the more that people scrutinise us, the better. That, roughly, is the message which 17 of the world's aid agencies were sending when, at a recent meeting in Geneva, they unveiled details of a standard of good management to which all of them (and, in due course, other agencies) should aspire.

The hope, presumably, is that next time an earthquake, epidemic or war creates a human tragedy, donors will be able to show their compassion with confidence that their money will not be wasted or diverted. “When you buy a well-known make of car, you assume that it's been tested against some carefully chosen benchmarks,” says Nick Stockton, a veteran of the aid business who now runs the Humanitarian Accountability Partnership (HAP) in Geneva. “Donors to good causes should have a similar assurance.”

That is much more than a platitude. Aid workers are still blushing over blunders they made after the 2004 tsunami. In the Indonesian province of Aceh, victims were housed in leaky, termite-ridden dwellings which had to be pulled down; boats given to Indonesian and Sri Lankan fishermen proved unseaworthy; temporary homes for Indian victims proved too hot to inhabit. Such embarrassments have given independent aid bodies a strong incentive to review their own record before governments, or inter-governmental bodies, step in with heavy-handed rules.

In practical terms, getting a HAP certificate (valid for three years) means inviting auditors to take a tough look at your mission statement, your accounts and your control systems—both at head office and in the field. Auditors' reports will be as open to the public as company accounts are.

Among HAP's members, there are some global giants of relief such as World Vision, CARE International and Oxfam; groups with a religious inspiration like Christian Aid, and some state agencies, mostly Nordic. Two bodies have been given their HAP certificates already, on the basis of audits carried out over the last few months: the Danish Refugee Council, and a Senegal-based agency, OFADEC.

The first stage in an audit involves asking whether the organisation deserves to be considered at all: is it a real not-for-profit agency, committed to the relief of suffering? Later stages involve testing the views of beneficiaries, and seeing how complaints are dealt with. The certificate's designers drew on the yardsticks used to test commercial products and services.

“Accountability” has been a buzz-word among providers of succour at least since 1994, when it emerged that refugee camps in Congo were sheltering those responsible for Rwanda's genocide. The notion that “good intentions can have bad results” became a commonplace. And after the tsunami, there was much talk of accountability to victims as well as donors.

One problem, maybe, is that there is no point in the chain that leads from donors to recipients where judgments and motives are always wise and disinterested. As most agencies will admit, rich types with bleeding hearts are not the best judges of where their donations are needed; an agency that simply catered to donors' whims would short-change the needy. A few weeks after the tsunami, some branches of the French-based Médecins Sans Frontières admitted starkly that they could not handle any more donations. Few rival agencies were so honest, though many felt that refugees from the Congolese civil war, a more obscure cause, should have got more help and tsunami survivors somewhat less.

As for the victims of a disaster, they are of course better judges than any bureaucrat of the houses or boats they need; but if they are caught in the midst of a conflict, the “needs” of the victims and the war aims of their tribe or nation are not easy to separate. If a “victims-first” principle had been used in those camps on Rwanda's border, it might have implied pandering to the perpetrators of terrible crimes.

To put it another way, there is no piece of paper that will instantly solve the agonising ethical dilemmas that can so easily arise when handing out aid to the suffering. But the HAP certificate might still do a lot of good if it forces agencies to abide, at least, by the first principle of Hippocrates: First, do no (avoidable) harm.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Whaling

Sharpening their harpoons

May 24th 2007
From The Economist print edition

The hunters of the world gird for battle with the huggers

SEVENTEEN dead whales and dolphins lie glistening in the sun by Berlin's Brandenburg Gate. Greenpeace, which collected the dead animals from the beaches of Europe, hopes the sight will draw attention to the threats facing the world's whales ahead of the annual meeting of the International Whaling Commission (IWC), which takes place next week in Anchorage, Alaska. While the delegates gather, Greenpeace plans to display collections of carcasses to the horrified citizens of Stockholm and Amsterdam, to stir up further indignation.

There has always been an element of theatre to the meetings of the IWC, which was set up in 1946 to regulate whaling around the world. In 1982, it adopted a moratorium on whaling, to allow the collapsing populations of various species to recover. Since then, its members have been embroiled in a decades-long argument over whether to dust off their longboats. The conservationists have the upper hand, since the approval of three-quarters of the members is needed to overturn the whaling ban. But with every passing year, pro-whaling nations have been gaining ground: last year, for the first time, they persuaded a narrow majority to vote for a resumption of whaling .

The would-be whalers are led by Norway, which has never accepted the moratorium, Iceland, which renounced it last year, and Japan, which supposedly only allows whaling for scientific purposes, although more of the meat ends up in restaurants and supermarkets than in laboratories. The whalers complain, with some justification, that whale-hugging nations have been arguing in bad faith; they have no intention of allowing whaling to resume no matter how healthy stocks become, and are calling for endless studies only as a delaying tactic. What is more, Norway and Iceland point out, they have managed their fish stocks much better than the sanctimonious whale-lovers of the European Union.

On the other hand, even in the pro-whaling countries, whaling is an insignificant and dying industry. Japan's whale-meat mountain grew by about a quarter last year, despite a fire on a whaling boat that reduced the planned catch of its bloodthirsty scientists. Icelandic fishermen, too, are having trouble getting rid of the whales they caught in defiance of the moratorium last year. Whale-watching, meanwhile, is a buoyant business. And activists are trying to persuade outraged cetaceaphiles to boycott Icelandic goods and holidays.

Both sides are feverishly trying to recruit new members to bolster their cause at the IWC. Traditionally, Japan has been the best at netting extra votes, including schools of small Pacific and Caribbean nations with no taste for whale meat but a hunger for Japanese aid. This year, it signed up landlocked Laos, not previously known for its prowess with harpoons.

But the anti-whaling lobby has struck back, signing up four conservation-minded European nations. Although the whaling nations cannot hope to overturn the ban this year, they just might win a vote to make future ballots secret—a step that would heighten the drama at next year's meeting.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

European companies

Giants forced to dance

May 24th 2007 | BERLIN AND LONDON
From The Economist print edition

Claudio Munoz

Turmoil among Europe's corporate champions

HOW appropriate that the name of the new boss of Siemens, Europe's leading engineering group and a bastion of German capital-goods manufacturing, translates as “fire extinguisher”. Peter Löscher has got a blaze to deal with at a firm engulfed by multiple bribery investigations and the departure of both its chairman and chief executive. An unknown from the senior ranks of Merck, an American drugs giant, Mr Löscher has in fact enjoyed a successful global career spanning Europe, Japan and America. He could be the blast of cold water that Siemens needs, but he faces the difficult task of mastering the giant conglomerate, with its 475,000 employees and sales of €87 billion ($107 billion) across 11 divisions, ranging from trains to medical equipment.

At a time when Europe's big companies can hold their heads up high, with results comparable to those of America's corporate giants, comes a crop of boardroom upheavals and struggles for control—a surprising occurrence in the midst of a boom, and one that could mean tougher times ahead. It is not just Siemens. Other prominent European companies in turmoil include EADS (the parent of Airbus), Daimler, PSA Peugeot Citroën and Renault. The travails of Europe's banks and energy firms largely stem from the belated introduction of a single market, while in other industries, such as telecoms and aviation, long-awaited consolidation is stirring things up. What is worrying about Siemens, EADS and others is that their woes may have a deeper cause: being wrongfooted by global competition.

Pessimists worry that the turmoil among Europe's finest could herald the end of their success in the past ten years. Optimists hope that it will prompt a round of creative destruction that will enable European companies to raise their game and do better. The fate of these giants is particularly important because of the structure of the European economy.

Europe's labour productivity is nearly one-third lower than America's, according to a new study published in the *McKinsey Quarterly*. The main reason, says Heino Fassbender, the study's author, is not Europe's welfare state. It is that Europeans have chosen to work less than Americans. This hobbles productivity, stifles the emergence of strong new firms and makes Europe heavily dependent on its existing corporate champions, which operate far beyond Europe. Their global scope means they can adapt to labour conditions at home—such as France's 35-hour working week, or restrictions on their ability to sack redundant or unproductive workers—by eking out higher productivity elsewhere. Since Europe particularly relies on its corporate giants for its vigour, signs of turmoil in their ranks are worrying.

Yet might a shake-up be exactly what the giants need? The arrival at Siemens of Mr Löscher, a fresh-faced outsider, has led to renewed suggestions that the sprawling conglomerate ought to be broken up. A similar debate over GE in America was ignited this week by the sale of its plastics division (see article). It

may be that Siemens's supervisory board hopes Mr Löscher will be a more malleable figure than his predecessor, Klaus Kleinfeld, whose muscular leadership upset both the unions and Germany's business establishment. Intriguingly, however, Mr Löscher was a strategist at Hoechst, a chemical group, when it decided to break itself up, prompting speculation that he might reach the same conclusion about Siemens.

The firm is “more willing than ever to think radically about its future,” says Ben Uglow, an analyst at Morgan Stanley. He points out that five of its ten management-board members will leave in the next year, opening the door to a change in strategy.

Another German company in disarray is Daimler, as it will be known upon completing its sale of Chrysler, its American arm. Daimler bought Chrysler to spread car-development costs over a wider revenue base. Its admission of defeat could be seen as a mature decision, as the company cuts its losses. But it leaves Daimler with no obvious strategy. With Chrysler out of the way, it may even look like a target, given its unusual make-up: the world's leading luxury-car brand, the world's biggest truckmaker and a big shareholding (15%, but with voting rights of 22.5%) in one of Europe's most troubled groups, EADS.

The first thing Nicolas Sarkozy did as France's new president was fly to Berlin to talk to Angela Merkel, *inter alia*, about the crisis at EADS. The next day he was in Toulouse, reassuring Airbus workers that the French state would help when Airbus wanted more capital, but also expressing his desire to see the government eventually replaced on the shareholders' register by industrial and financial stakeholders. This confusing pragmatism suggests little more than a wish to end the clumsy Franco-German stalemate over the future development of EADS and Airbus.

The end of the traditional pause in corporate activity in France during presidential elections was emphasised this week by the unveiling of plans by Christian Streiff to redress falling profits at Peugeot, where he moved after three disastrous months last year trying to run Airbus. At Peugeot he has called for nearly 5,000 job cuts in France, but would avoid compulsory redundancies. Mr Streiff told shareholders this week that he would slash overheads by 30% and revive the company's product range by launching 41 models by the end of 2010.

Like Renault (a domestic rival that improbably hopes to avoid job cuts at home by moving upmarket, something it has never managed to do), Peugeot must contend with a car market where all the growth is far beyond Europe's shores. In the good years, European giants could have been forgiven for thinking that, having put themselves right, they could thrive by just getting on with the job. The uncomfortable truth now dawning is that today, as business globalises, large firms have to put themselves right time and again.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

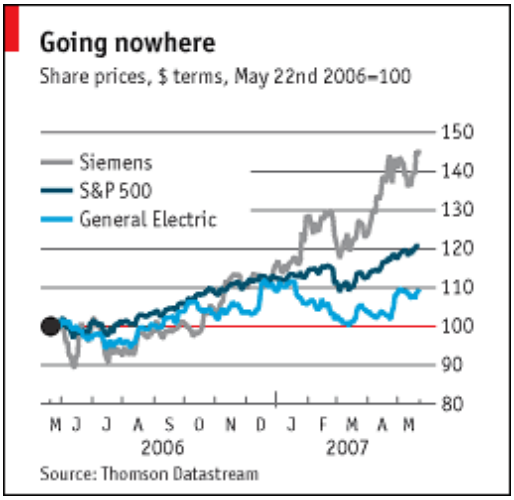
Conglomerates

I don't love Jeff

May 24th 2007 | NEW YORK
From The Economist print edition

Should General Electric be broken up?

Get article background



POOR Jeff Immelt. Since taking control of General Electric (GE) in 2001, he has hardly put a foot wrong. He has reshuffled his pack of companies, divesting volatile ones and acquiring fast-growing businesses in higher-margin areas such as infrastructure and health care. Recent revenue growth has been zippy, in line with the company's target of two to three times global GDP growth. GE is forecasting profits of close to $23 billion this year, which would be double-digit growth over last year. Most analysts recommend the firm's shares.

But investors have shrugged. GE's share price has risen by 9.6% over the past 12 months, well below the S&P 500's 20% gain. Yet the share price of Siemens, its European rival, has jumped 39% during the same period, despite a corruption scandal (see chart). Mr Immelt's latest deal, the sale for $11.6 billion of GE's plastics unit to SABIC of Saudi Arabia, had little effect when it was announced on May 21st.

Why the subdued performance? The “I love Jack” premium baked into the share price under Mr Immelt's celebrated predecessor, Jack Welch, has long gone. It is harder to turbo-charge the shares of a firm that is already performing well. The benefits of diversification look less compelling when markets are buoyant. And GE's size means it has not benefited from the takeover speculation that has lifted other firms' share prices.

Some believe that GE would be more valuable if it broke itself up, or at least became more focused. Last month analysts at Citigroup proposed that it ought to spin off three big assets: NBC Universal, its media unit; its consumer-finance arm; and its property business. That would leave behind a simpler firm with a sharper focus on infrastructure, where Mr Immelt has assembled a powerful array of businesses to address the long-term needs of developing economies.

For the moment, GE is sticking to its many guns. Its ability to develop talented managers and run businesses well is not in question. It is unsentimental about getting rid of assets if their performance is not up to scratch—both Mr Immelt and Mr Welch once worked in the plastics unit. And it is keeping shareholders sweet with steadily rising dividends and a share-buyback programme.

But today's frantic dealmaking means conglomerates such as GE find it harder to argue that they are worth more than the sum of their parts. GE's plastics unit fetched over $1 billion more than the highest estimate of its value. Mr Immelt got an excellent price—but it rather awkwardly suggests that GE might be worth far more if it were broken up.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

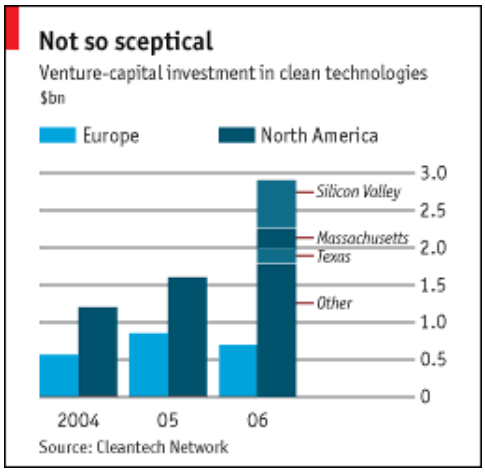
America's clean-tech clusters

Venture capitals

May 24th 2007 | AUSTIN AND SEATTLE
From The Economist print edition

Which city or state will emerge as the Silicon Valley of clean technology?

DEVAL PATRICK, the new governor of Massachusetts, aspires to create "the renewable-energy centre of the world" in his state. That may not go down well with Austin's mayor, Will Wynn, who wants to host the global "clean-energy capital". Iowa's governor has also staked a claim. And of course Arnold Schwarzenegger lurks in rich, green, can-do California. Like the planet, the race to become America's "clean-tech capital" is heating up.



The stakes are high. Venture-capital investment in clean-tech in North America more than doubled in the past two years to $2.9 billion, according to the Cleantech Network, an industry research body (see chart). That makes it the third-largest recipient of venture money after biotech and computing. Despite European perceptions that Americans are behind in environmental matters, investment is now four times higher than in Europe.

Unsurprisingly Silicon Valley is the early clean-tech leader, with $638m invested last year. Many engineering and entrepreneurial types were at loose ends after the dotcom bust, and were also hit by California's rolling blackouts. So when Mr Schwarzenegger introduced incentives, especially for solar power, he got a rapid response. Vinod Khosla, one of the grand old men of the Valley, now busies himself with clean-tech. And a "green wave" initiative requires California's two huge public-pension funds to commit $1.5 billion to environmentally friendly investments.

Boston is probably the next-biggest clean-tech cluster. Over $250m was invested in Massachusetts last year. There is plenty of brainpower with MIT and Harvard nearby. Electricity is costly, especially since no new coal plants have been built in New England in recent years. And although Massachusetts is not generally associated with manufacturing, Evergreen Solar, a local solar-panel firm, has just announced a new $150m plant.

Another contender is Austin—the "capital city of the most polluting state in the most polluting country in the world", as the mayor likes to say. Some $210m of venture capital was invested in clean-tech across Texas last year. Like Silicon Valley and Boston, Austin is already a technology hub for the computer industry, and is home to Dell and Freescale. Biofuels are big, too: they bring together Texans' knowledge of agriculture and oil. Willie Nelson, a local country crooner, has even started BioWillie, a biofuel firm. Austin also has a clean-energy incubator at the University of Texas, one of several allied with the National Renewable Energy Laboratory (NREL).

A few other places—experts mention New Jersey, Arizona and (strangest of all) Toledo, Ohio—are also trying to attract clean-tech start-ups. But more striking are the "green" cities that are doing very little. In Seattle there is little clean-tech buzz beyond a massive biodiesel company, Imperium Renewables, founded in 2004. Denver, despite having the NREL in its suburbs, has also seen little start-up activity. Marty Murphy of the NREL thinks Colorado's new governor will try to change this.

And for all of America's work in clean-tech, most of its products are sold overseas. Europe and Japan have been pushing solar power and other alternative technologies much longer, and demand is steadier. First Solar, a solar-panel company in Arizona that went public last year, counts a handful of German firms as its main customers. It works the other way, too. Wind power is growing fast around the world and America, especially Texas, is leading the movement. Most turbines, however, are still made in Europe.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Tourism in Greenland

Global warming's boom town

May 24th 2007 | ILULISSAT
From The Economist print edition

A town in Greenland attracts rich green globetrotters

ILULISSAT, a town of 5,000 people in the chilly north of Greenland, is hot. Majestic blue icebergs the size of small islands float outside its harbour; its ice fjord drains 7% of the area of the Greenland ice sheet. It is the place to go to see global warming in action. And getting there has just become much easier. This week Air Greenland began commercial flights between Kangerlussuaq, a former military airstrip to the south, and Baltimore in Maryland. American eco-tourists can now fly straight to the Danish territory without going via Copenhagen.

Those who do so will be following a long line of political celebrities, many of whom are keen to be seen on a melting ice sheet after a successful election. Nancy Pelosi, America's House speaker, is due to arrive next week. A helicopter will take her to Swiss Camp, a research station on the ice sheet with its own sauna. Ms Pelosi's visit will follow those of John McCain, a senator and presidential candidate, and Romano Prodi, Italy's prime minister. Germany's Angela Merkel is due in August; José Manuel Barroso, president of the European Commission, is also making plans.

All of these visitors will, of course, help to accelerate the very global-warming process they have come to witness. But the residents of Ilulissat do not mind, because warming is good for business. Unemployment in the town is zero. A glacier next to a nearby zinc and lead mine has retreated since the site closed in 1990, exposing an outcrop of metal-rich ore, where drilling will start again soon. Ships supplying the only factory in town, which processes the local catch for Royal Greenland, a huge state-owned prawn supplier, can now use the harbour throughout the winter (it was previously inaccessible for three months of the year). The warmer water seems to be bringing back the cod fishery as well.

But the tourist industry is warming fastest. Around 15,000 tourists visited last year and twice as many are expected this summer. Hotels are booming and additional tourist guides are being trained. There is talk of setting up an ice museum, says Klaus Berg of Destination Disko, an outfit charged with co-ordinating tourism in the area. All that is needed now is a slogan. How about “Do your bit for global warming”?

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Microsoft

Truth in advertising

May 24th 2007 | SAN FRANCISCO
From The Economist print edition

Feeling unusually threatened, the software giant does an unusual deal

Get article background

EVER since Bill Gates disrupted IBM's dominance of the computer industry and made Microsoft the world's biggest software company, he has feared being disrupted in turn. That is why in 2005 he hired Ray Ozzie, a veteran software guru. On arrival at Microsoft Mr Ozzie wrote a memo, called “the internet services disruption”, in which he detailed the threat (Google), the trend (toward free web services) and its new revenue model (online advertising). By buying aQuantive, an online-advertising agency based in Seattle, Microsoft has begun to implement Mr Ozzie's anti-disruption strategy in earnest.

Last week's deal is nonetheless unusual for Microsoft. At $6 billion in cash, it is more than four times bigger than its previous big acquisitions (of Navision and Great Plains, two software companies, in 2002 and 2001). In “frothiness” it resembles only Microsoft's investments in cable and telecoms firms during the late 1990s, says Matt Rosoff at Directions on Microsoft, an independent research firm.

It might therefore look like a somewhat desperate response to Google which, as the most popular search engine and biggest seller of online advertising, has been upstaging Microsoft. In April Google increased its market share of searches to 55%, whereas Microsoft, in third place after Yahoo!, slipped to 9%, according to Nielsen/NetRatings, a market-research firm. Google's lead in keyword-related advertising, thanks to its huge network of affiliated websites, is even larger. Last month Google extended that lead into display advertising by outbidding Microsoft to buy DoubleClick for $3.1 billion.

That deal set off a round of panic buying. Yahoo! bought Right Media, a smaller display-advertising firm, and WPP, a more traditional advertising conglomerate, snapped up a firm called 24/7 Real Media. Microsoft initially responded—with a certain cheek, given its own record as a monopolist—by objecting to the DoubleClick deal on antitrust grounds, arguing that Google was becoming “dominant”. But it then bid high for aQuantive.

Buying aQuantive poses some problems, however. Its largest unit, Avenue A | Razorfish, is an agency that designs websites and online-marketing campaigns. Its second business, called Atlas, serves advertisements and sells tools that other agencies can use to design and track campaigns, and that website owners can use to make the most out of their inventory. Its third business consists of two advertising-syndication networks, called DRIVEpm and MediaBrokers. This is aQuantive's smallest business, but the one most relevant to Microsoft's strategy. Combining these businesses with Microsoft presents conflicts of interest. The same company will, for example, now own an agency that buys web space on behalf of advertisers and one of the biggest sellers of such space—MSN, Microsoft's web portal.

But Microsoft feels that it had no choice. Google appears intent on offering ever more of the things that used to be sold as software—such as word processing or spreadsheets—as free online services. This week there was talk of a tie-up between Google and Salesforce.com, a firm that offers business software as an online service and thus also competes with Microsoft.

Mr Ozzie counters that Google and Salesforce have it wrong by thinking that the world will shift entirely to “software as a service”. Instead, he says, the future lies in “software and a service”—ie, in coupling web-based services with local software. He recently introduced a set of technologies called Silverlight, which will allow such hybrid software to be built. Such software will also involve advertising—and demonstrating how this might look during Mr Ozzie's launch speech was a creative type from Avenue A | Razorfish.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Mobile phones

Screen savers

May 24th 2007 | TOKYO
From The Economist print edition

Japan's latest mobile craze: novels delivered to your handset

WITH sales of books in decline, a new market has come as a godsend to Japan's publishing companies. Sales of mobile-phone novels—books that you download and read, usually in instalments, on the screen of your *keitai*, or mobile phone—have jumped from nothing five years ago to over ¥10 billion ($82m) a year today and are still growing fast. It may not be literature, but it sells. Mica Naitoh, a popular *keitai* author whose bestselling book had 160,000 downloads a day, says many of her readers never even buy old-fashioned books. For one thing, she says, today's trendy handbags are far too small.

The problems of traditional publishers go beyond handbags, however. Shin Nina of Kadokawa, a go-ahead publisher that has branched into *keitai* novels, points to two reasons for the crisis in printed books. One is that publishers are at the mercy of an inefficient distribution system: piles of books may sit unsold at one bookseller while demand goes unmet at another. The second reason is the devastating success of an innovative chain of second-hand bookshops called Book-Off, which buys used paperbacks at around 5% of the retail price, trims off their worn edges with a machine behind the counter and resells them for around one-third of the new price.

So publishers turned to *keitai* books, which can be distributed digitally and cannot be resold. At first plenty of false assumptions were made, says Mutsumi Nakamura of Shinchosha, which got into the business in 2002. Publishers offered existing novels by established authors, but they did not sell, suggesting *keitai* readers were a new audience. Then they offered pornography, but that did not sell either, since most readers were women. Publishers now understand the market better. Mystery and romance sell well, but nothing too slushy. The death of someone hiding a terminal illness from a lover is a popular theme. There is quite a bit of sex.

Yet with the market growing fast, new entrants are piling in, forcing publishers to find new spin-offs for *keitai* novels. Ironically, some have gone on to do well in print. Yoshi, the most successful *keitai* author, turned his most popular novel, “Deep Love”, about teenage prostitution, into a book that has sold 2.7m copies—as well as a film, a television series and a manga comic.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Canada's oil boom

Building on sand

May 24th 2007 | FORT MCMURRAY, ALBERTA
From The Economist print edition

The allure and perils of investing in Alberta's oil sands

EACH tyre on the massive trucks carting gritty black goo around a mine in northern Canada weighs as much as four cars, an engineer explains excitedly; the trucks, in turn, can carry 400 tons. They are driving around a hole in the ground that is several hundred metres deep, several kilometres wide, and growing fast. Open-cast mines like this are planned for some 3,000 square kilometres of the surrounding area, and subterranean ones beneath a further 35,000 square kilometres.

Canada's oil sands, or tar sands, as the goo is known, are outsized in every way. They contain 174 billion barrels of oil that can be recovered profitably, and another 141 billion that might be worth exploiting if the oil price rises or the costs of extraction decrease—enough to give Canada bigger oil reserves than Saudi Arabia. They are attracting huge investment from oil giants such as Royal Dutch Shell, Exxon Mobil and Total. But they are also stirring great controversy.

Until recently, most big oil firms shunned the oil sands as too expensive to exploit. In most cases, extracting oil involves chopping down the forest that blankets the region, draining the boggy ground, stripping off the topsoil and literally digging up the oily sand below. Producers must then mix it with water, heated using natural gas, to separate the oil from the sand. Some do all this underground by pumping steam into deeper deposits and pumping out the resulting slurry. Both processes produce bitumen, which needs extra treatment before it can be refined into petrol. All this consumes lots of energy, and so costs C$20-25 ($18-23) per barrel of output in operating expenses alone. Analysts at Citibank reckon the oil price needs to remain above $40 a barrel to make the development of the oil sands worthwhile.

But with oil selling for around $70 a barrel, and with big oil firms struggling to find new resources, the oil sands suddenly seem much more attractive. There is no exploration risk: the oil is definitely there. Once up and running, oil-sands mines produce a steady flow of oil for 30 years or more, whereas the output of more conventional fields is much less predictable. Best of all, the oil sands are in Canada, a hearteningly moderate and stable country.

So the oil majors are piling in. This month Total said it would increase its total investment in the region to as much as C$15 billion. Norway's Statoil has just spent $2 billion on a Canadian firm with oil-sands rights. Shell, Exxon, Chevron and others are joining in. Production from the region, now 1.2m barrels per day, is expected to rise to 4m by 2020, putting Canada's output on a par with Iran's.

But not all the oil giants are convinced. BP, for one, has steered clear. If the price of natural gas rises, or that of oil falls, the oil sands will look less enticing. As it is, development costs have roughly tripled since 2001, according to industry figures, thanks to a shortage of labour and parts—such as those massive tyres.

Meanwhile, the province of Alberta is reviewing the tax regime. Back in the 1990s, when there was little interest in the oil sands, it sought to lure investment by setting a nominal royalty of just 1% of revenues until investment costs were recovered. Today, although production is booming, the province's revenue from royalties is actually falling, as oil firms take advantage of that and other tax breaks. Critics argue that times have changed and that producers can now afford to pay more. More broadly, they contend that the rapid growth of the industry is fuelling inflation in the province and overloading its infrastructure, and should be slowed. The mayor of the main oil-sands district has called for a lull in new projects.

But the biggest uncertainty is over the environment. Extracting oil from oil sands produces two or three times as much carbon dioxide as pumping it out of a normal well, according to the Pembina Institute, an environmental group. Yet the Canadian government has vowed to reduce Canada's emissions. To that end, it will soon require oil-sands projects to reduce the ratio of emissions to oil produced by 2% a year.

Activists at WWF, another pressure group, say a much tougher regime is needed. Meanwhile, California and 11 other American states are planning to adopt pollution laws that would ban the sale of petrol from emissions-intensive sources. Shell and other big investors in the oil sands hope to meet such requirements by siphoning off emissions from their mines and storing them underground—although the technology to do so is still in its infancy. The uncertainties surrounding the oil sands, in other words, are as big as the developments themselves.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Hobbies

Scrap mania

May 24th 2007 | AUSTIN
From The Economist print edition

Scrapbooking, the most popular craft in America, goes upmarket

MARTHA STEWART is a woman with many hobbies. She cooks, gardens and makes jam. And now it seems she has decided to take up scrapbooking. This month Martha Stewart Living Omnimedia launched a line of Martha-branded supplies, bringing a dash of glamour to the world of paper crafts.

A scrapbook is essentially a photograph album with decorations. The photographs are in some cases merely a pretext for a collage about a wedding or a barbecue. Ribbons, stickers and stamps are the basic kit in the scrapper's arsenal. Scrappers can also buy embellishments to suit any occasion, from a miniature Marine uniform to a hole-punch that makes tiny paper butterflies.

Never mind recycling—authentic scraps are seldom used. Booming sales of decorations and other scrapbooking supplies added up to $2.6 billion in 2006. The Craft and Hobby Association says it is the most popular craft in America: 12% of American households have a scrapper on premises. (Scrappers are almost all women, though some outfits are gunning for men with such things as NASCAR-themed embellishments.) Target and other big-box retailers now devote whole aisles to scrapbooking supplies, and craft-supply chains such as Michaels, based in Irving, Texas, are expanding their product ranges.

But although scrapbooking may be popular, it has never been fashionable. The prevailing aesthetic is saccharine. It includes glitter, polka dots and lots of pink. Martha Stewart Crafts brings a slightly more sophisticated style to scrapbooking, with albums in tasteful shades such as walnut and persimmon. The line is not entirely humourless, with stickers of a hula-hooping watermelon and a happy orange waving a pennant.

Perhaps Ms Stewart's arrival on the scene will earn scrapbooking a little more respect. Other crafts, after all, are taken seriously. The Whitney Museum of American Art in New York featured an exhibit of quilts a few years ago. Knitters click away on the subway. Sublime Stitching, based in Austin, Texas, sells embroidery patterns featuring pirates and pieces of sushi. True, a preoccupation with the relative merits of various types of decorative sticky tape is not for everyone. But a well made scrapbook is more impressive than yet another of those itchy scarves.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Face value

Africa calling

May 24th 2007
From The Economist print edition

Eyevine

Mo Ibrahim helped to bring mobile phones to Africa. Now he has bigger plans

IN 1998, as the telecoms boom was under way, Mo Ibrahim was amazed that big companies were rushing into the mobile-phone business around the world, yet not in Africa. There they saw only problems: poverty, unrest and corruption. Mr Ibrahim, a veteran of the telecoms industry in Britain and Sudan, was at the time running a consultancy he had founded in London. Amid the cigar smoke and snifters that followed its directors' dinners, an idea formed. Might it be possible to set up a pan-African mobile operator—and to do so without paying bribes?

This was the genesis of Celtel, which is now one of Africa's largest mobile operators, with some 20m subscribers in 15 countries.When Mr Ibrahim sold Celtel in 2005 to MTC, a Kuwaiti operator, for $3.4 billion, it demonstrated that the continent was open for business. Rather than charity, he insists, “the way forward for Africa is investment.”

Building businesses in Africa is important to Mr Ibrahim, who had to leave the continent as a young man in order to pursue his career. Born in Sudan and raised and educated in Egypt, he started off as an engineer at Sudan's national phone company. After further study in Britain he went on to become technical director at Cellnet, the wireless arm of BT, Britain's biggest telecoms operator. (Cellnet was subsequently sold, renamed O2 and is now owned by Telefónica of Spain.) He left in 1989 to set up an engineering consultancy that designed mobile networks, and sold the firm for just over $900m to Marconi in 2000.

These experiences paved the way for Celtel's emergence. The consultancy enabled Mr Ibrahim to peer into the business models of dozens of mobile operators, from which he concluded that an African operator would work. His time at BT was also informative: big companies, he says, teach a fellow everything he ought not to do in order to be successful. “Later on in life I was not worried about taking on the big guys, because you know they are not efficient,” he says. And Mr Ibrahim's previous success meant that the motivation behind Celtel's establishment was not solely commercial. He and his co-founders had already made their fortunes and regarded Celtel as a political and intellectual test. That is why they happily ventured into risky African markets and refused to pay bribes.

Now that mobile telephony is booming in Africa, Mr Ibrahim has other plans. Not for him the typical rush into private equity. Instead he set up a foundation last year with the novel (and, say critics, utopian) mission of promoting good governance in Africa. It plans to award an annual prize of $5m to retired African leaders who rule well and then stand down, rather than trying to cling to power. The foundation is working with Harvard University to establish a scoring system with which to assess potential candidates.

The prize committee is chaired by Kofi Annan, former secretary-general of the United Nations. The first award will be presented in October, though the prize will be presented only in years when a worthy winner can be found. By that point Mr Ibrahim plans to have stepped down as the chairman of Celtel to avoid any possible conflict of interest.

Meanwhile Mr Ibrahim has also put up $150m to establish a fund to invest in African businesses. From its newly opened offices in London, the Africa Enterprise Fund will seek out promising companies in financial services, consumer goods, energy and agricultural processing. The aim is to focus on established businesses that need cash and experienced management to grow, and the average investment is expected to be around $20m. Only companies that can expand their operations regionally or throughout Africa will be considered. Mr Ibrahim has appointed Tsega Gebreyes, Celtel's former strategy chief, to help run the fund. This is because the fund's approach is to apply the Celtel formula in other fields: identify inefficiencies, consolidate fragmented operations, go pan-continental and develop a respected brand. The goal is scale. A large company that operates in several African markets can attract a higher calibre of managers than a gaggle of local ones, and can have more political clout when demands for bribes crop up.

Politics, philosophy and economics

Though there are no direct links between the foundation and the fund, the two are symbiotic. Business and investment in Africa can succeed only if there is good governance, which is what the foundation is intended to promote. And economic development is necessary in turn to give people a stake in improving the political process. The foundation's $5m prize is a pittance, it is true, when compared with the spoils that can be extracted by staying in power. But the initiative may not be totally futile: given the impotence of Africa's intergovernmental bodies it will do no harm at all to produce an annual public ranking of African governance. And the foundation will offer a carrot where other non-governmental organisations carry sticks.

The investment fund is also tiny when set against the magnitude of Africa's problems. But as Celtel shows, some businesses can have a powerful ripple effect, promoting economic activity and generating new investment. Celtel employs around 8,000 people directly, for example, but it and other mobile operators indirectly provide jobs to around 170,000 people in Africa who resell prepaid airtime. More broadly, mobile phones also promote entrepreneurship and economic activity by widening access to markets and making up for poor or non-existent transport infrastructure. Similar ripple effects ought to be possible in other fields such as financial services and energy.

Thirty years ago Mr Ibrahim had to leave Africa for Europe in search of education and professional success. He hopes that fostering indigenous African companies will help ensure that tomorrow's engineers and entrepreneurs can find their opportunities closer to home.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Financial exchanges

Buy, buy, buy

May 24th 2007 | NEW YORK
From The Economist print edition

Landov

As capital markets expand, the world's financial exchanges are booming and battling for global leadership

TRADERS cannot resist a bet, even on their own fate. Amid a bidding war over Chicago's derivatives exchanges, the US Futures Exchange, also based in the Windy City, has launched a “binary” contract which allows speculators to take a punt on whether the IntercontinentalExchange (ICE) can snatch the Chicago Board of Trade, America's oldest derivatives exchange, from the grasp of the biggest, the Chicago Mercantile Exchange (CME). Until recently ICE, a fast-growing electronic upstart from Atlanta, had the edge. Then the CME upped its offer to $9.8 billion and its chances of success—as measured by the binary contracts—leapt to over 70%.

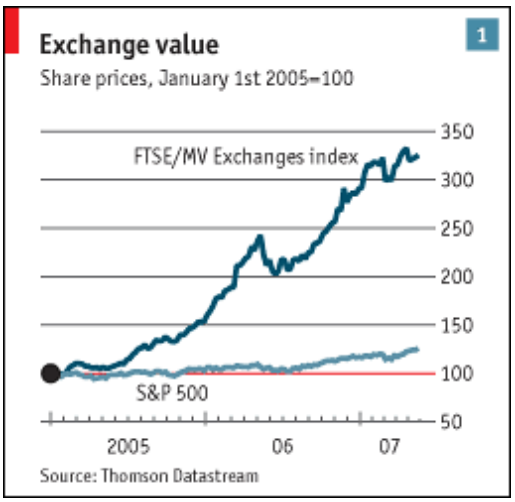
The shoot-out in Chicago is part of a pattern of bold deals that are reshaping financial exchanges. In April the New York Stock Exchange (NYSE) completed its merger with Euronext, itself formed from the union of the Paris, Amsterdam, Brussels and Lisbon bourses. Germany's Deutsche Börse, which had wanted Euronext, has consoled itself by agreeing to buy ISE, an American options market, for $2.8 billion. And having failed to conquer the London Stock Exchange (LSE), NASDAQ is now eyeing up other exchanges on both sides of the Atlantic.

Financial exchanges are a booming business. This reflects the growth of capital markets, which expanded at twice the rate of global GDP from 1993 to 2004, according to McKinsey, a firm of consultants. As stock-, derivatives and bond markets get bigger, investors are shifting money into an array of tradable financial products.

Furthermore, cheaper-to-operate electronic markets are spreading at the expense of traditional “open outcry” trading floors. Hard-trading hedge funds have added to the explosion of activity. The value of shares traded worldwide increased by 28% last year, to $69.8 trillion. The unprecedented surge in competition has caused many exchanges to seek safety in size. Indeed, takeover speculation has sent the prices of shares in exchanges soaring (see chart 1).

But exchanges are also under pressure from regulators and clients. New rules on both sides of the Atlantic—America's Regulation NMS and the European Union's MiFID directive—will require trades to be routed through the market offering the best price (or best combination of price and robustness). They also seek to improve transparency. NMS was introduced earlier this year and MiFID is

supposed to be implemented by November.



Another relationship

The pressure from clients is a response to a decade of transformation. One by one, exchanges have shed their mutual status to become for-profit, publicly traded entities. This has “obliterated” the old set of relations between marketplaces, their users and their users' clients, says Benn Steil, a financial-markets expert at the Council on Foreign Relations.

When exchanges were broker-owned utilities, they charged just enough to tick along. Innovation was not a priority. Now, they serve shareholders who want to maximise revenue. That means streamlining trading, developing new products and selling them widely. However, the picture is a complicated one. Many brokers continue to own stakes in exchanges and, in the more competitive environment, all of them have benefited from lower prices, new technology and product innovation.

Yet one sign that brokers sometimes see today's exchanges as foes is that they have been stepping up their investments in any new marketplace that promises to lower their costs. ICE, which was founded seven years ago, is backed by powerful Wall Street firms, including Goldman Sachs and Morgan Stanley. BATS Trading, a one-year-old electronic market based in Kansas City, has attracted investment from Lehman Brothers, Merrill Lynch, Morgan Stanley and Credit Suisse. It has cornered more than 10% of the trading in NASDAQ-listed stocks, forcing its bigger rival to cut prices for some clients.

Another way in which banks and brokers are circumventing the big exchanges is through “internalisation”: dealing with each other directly. There are now dozens of “dark pools” of liquidity, in which banks and institutional investors anonymously trade large blocks of shares. Computer software trawls through brokers' order books looking for matches. When they are found, both sides are alerted. Banks have long traded directly with each other through their “block desks”, but the use of pools enhances this and technology makes it easier for the pools to link up. This week, for instance, Credit Suisse and Instinet, a broker, signed a mutual access agreement for their dark pools in Japan. An estimated 10-15% of all stock trading is now done in the dark. As the head of one exchange puts it: “The liquidity is no longer in the marketplace. It's on trading desks.”

European dream

Alternative trading networks are most common in America, where they have helped to push the cost of trading relentlessly lower. Joshua Carter, an analyst with Goldman Sachs, expects the average transaction fee among the American exchanges he follows to fall by 2.4% annually over the next five years. In Europe, by contrast, upstarts have yet to make an impact. At least nine ventures have been launched, but the national exchanges still enjoy near-monopoly status in their own markets. As a result, prices have stayed high—as much as ten times the amount charged by American exchanges.

That may be about to change. For one thing, NYSE Euronext has vowed to shake up pricing in Europe. The NYSE has the lowest all-in trading costs for wholesale investors, according to a recent study by Elkins/McSherry, a consultancy. If it can bring some of that efficiency to Euronext, Frankfurt and London will have to respond with price cuts of their own.

Moreover, the MiFID directive will make it easier for new entrants. One is Project Turquoise, a pan-European trading platform being set up by a group of large banks that control more than 50% of the order

flow in European equities. Interestingly, it is by adopting the old mutual model ditched by most traditional exchanges that Turquoise hopes to compete.

Some exchanges saw this as a bluff by their customers. But Turquoise has recently signed up the Depository Trust & Clearing Corporation, which handles trades for American exchanges, as its clearing house. It will soon unveil its trading platform, according to a spokesman. It has also launched a venture, known as Boat, that will try to loosen the exchanges' grip on the lucrative market-data business. NYSE Euronext earns as much revenue from selling data as it does from trading equities in Europe. Turquoise's backers predict it could quickly cut the cost of buying and selling European equities by half, which would encourage more trading. But not everyone is convinced that the seven banks will continue to collaborate successfully, given their longstanding rivalries.

Deutsche Börse and the LSE have so far failed to cut their prices by more than token amounts. “It has long been clear that they will only act when they absolutely have to,” says Bob Fuller, head of Equiduct, a new, pan-European stock exchange that hopes to be up and running by next February. He says the coming revolution will be to share dealing what the low-cost airlines have been to air travel in Europe. An Equiduct trade will cost a maximum of €0.90 ($1.20) and take a mere 10-15 milliseconds. It has already signed up 1,300 stocks from 30 countries.

One response of the big exchanges has been to buy electronic networks that pose a threat, as the NYSE did with Archipelago and NASDAQ did with INET. This also brings in technology and fresh thinking. John Thain artfully used the Archipelago deal to revamp the New York exchange, where he is chief executive. He saw that it could be a “catalyst for cultural change”, injecting entrepreneurial spirit into a stuffy 215-year-old institution, says Nelson Chai, NYSE Euronext's chief financial officer (who came from Archipelago).

The big exchanges have begun to compete more vigorously with each other. The NYSE and NASDAQ used to operate in largely separate worlds, the NYSE in blue-chip stocks and NASDAQ in technology firms. Now they fight for every transaction. NASDAQ's share of trading in NYSE-listed stocks has risen to over 15%. In an effort to poach listings, NASDAQ has even begun offering a service that finds prospective board members for its companies.

Transaction factories

Whereas the NYSE has the stronger brand, NASDAQ likes to think it has an edge in technology. Robert Greifeld, NASDAQ's chief executive, believes that the future pecking order “will be determined not by whether your market trades round the clock, as some think”—he may have Mr Thain in mind—“but by how successful exchanges are at creating efficient transaction-processing machines. It's not sexy, but it's crucial.” Once you have invested in a trading platform, the cost of running extra transactions over it is minimal. So the secret will be versatile systems that can support high volumes and a variety of securities, from stocks to options.

That is easier said than done. Some within NYSE Euronext remain to be convinced that equities, derivatives and other products can be squeezed onto a single trading platform. Even if such a platform can be designed, the big exchanges are finding it harder to stay ahead of the gadflies, thanks to the falling cost of technology. Whereas the software and hardware needed to set up a trading system used to cost hundreds of millions of dollars, it can now be assembled for $10m or less. BATS's systems cost a mere $7m to set up and run in its first year.

This helps the small fry to assemble top-notch technology and make money from renting it to others. OMX, a Nordic exchange, has done this in neighbouring markets. The Montreal Exchange, hardly a colossus, has successfully marketed its impressive SOLA trading system to bourses in Asia. Boston's options exchange already uses it. “The new and the small are today's agents of change,” says Philippe Loumeau, Montreal's chief operating officer and a former Paris bourse executive.

Even the most robust systems will be tested as never before when trading volumes rise. The delays seen at the NYSE and other exchanges on February 27th—when a wall of sell orders sent the Dow tumbling and overloaded messaging systems—demonstrated how quickly a snowfall can turn into an avalanche when so much trading is generated by computers. Larry Tabb, a consultant working with exchanges, points out that messages sent by brokers (or their trading programs) in the American market have risen from 25,000 to 300,000 per second in a little over two years.

Derivative thinking

Exchanges are racing to stay ahead. But upgrading or merging their systems will not be enough in itself. With margins on stock trading dragged down by falling trading costs, exchanges know that their healthy return on equity—26% a year on average for American bourses between 2001 and 2005—will be hard to sustain. So they are looking to new markets, particularly Asia, and new products, such as bonds and derivatives, to keep shareholders happy.

Asia's attraction is its spectacular growth (see chart 2) privatised. Many of these firms now prefer to list at home. Trading on the region's stockmarkets jumped by 37% last year.

American and European exchanges are desperate to do deals in Asia, but there is not much on offer. The NYSE has gone furthest, signing alliances with Tokyo and India's National Stock Exchange. But these fall far short of mergers. The Japanese exchange is not even planning to demutualise until 2009. Most of the deals struck so far in Asia are “little more than agreements to be friends”, says Mr Tabb. Still, there is hope that China will look for a partner for its exchanges, once it has finished the more urgent task of mending its banks.

The move into derivatives has produced more tangible results. The NYSE got the London-based LIFFE futures market through its merger with Euronext. It also recently set up an options exchange, which already has more than 11% of the American market. If Deutsche Börse gets its way, it will add ISE to its well-regarded Eurex derivatives market. NASDAQ plans to open its own options market, if it does not buy one (it has held talks with the Philadelphia exchange, which has had some success switching from stocks to options). As with the fight in Chicago, derivatives are fast becoming the bloodiest front in the battle for global dominance.

The attraction of moving into futures, options and swaps is that derivatives markets tend to command higher valuations than those that trade only shares. There are a number of reasons for this. Growth has been spectacular: trading on the CME, for instance increased at an average annual rate of 36.4% in 2000-05, compared with 14.5% on the NYSE. Hedge funds are attracted to derivatives as a way to manage risk and punt with borrowed money, whether economies are stagnating or booming. Whereas growth in stock trading is constrained by the number of firms listed—not to mention regulations such as Sarbanes-Oxley—derivatives are limited only by the capacity of financial eggheads to concoct new contracts.

André Cappon of CBM Group, a financial consultancy, points to two further factors. One is scarcity value. There are only a dozen or so derivatives exchanges of any size. The other is the firm grip such bourses have on their own products. Whereas a stock exchange can poach trade from rivals, futures markets have ownership rights over many of the contracts that trade there, thanks to licensing agreements with the owners of the underlying indices, such as the S&P 500 and the NASDAQ 100. That said, new exchanges are free to introduce contracts that are similar, but not identical, to existing ones—as ICE did so successfully with oil futures.

The derivatives exchanges with the tightest lock on trading are those that have their own clearing houses such as the CME and Eurex, since they can offer clients cheaper and swifter settlement. Such vertical integration is controversial and may not last. In the past the European Commission has hinted it might force Deutsche Börse to shed its clearing operations, although the pressure seems to have eased for the moment.

One other reason for exchanges to own their own clearing houses, says Antonio Riera, of the Boston Consulting Group, is so that they can offer the back-office services their users are clamouring for. Collateral management, for instance, involves things like cross-margining, in which offsetting exposures are lumped together, allowing investors to reduce the overall amount of capital needed to be set aside to cover positions. It means more bets can be made with a given dollop of capital.

Moreover, because of their expertise in designing, trading and settling complex instruments, exchanges that own their own clearing houses feel confident that they can wrest some business away from the giant over-the-counter (off-exchange) derivatives markets. The CME has had some success with its centrally cleared markets for foreign exchange and swaps, for instance, though both ventures are at an early stage. Mr Carter thinks that, as contracts become standardised, exchanges could grab a big chunk of the market

for credit-default swaps, worth a massive $29 trillion in notional value and traded mostly privately. This is likely to antagonise the banks that currently dominate that market.

Spotting who will come out on top in all this is not easy. If the CME succeeds in taking over the Chicago Board of Trade, it will move far ahead of the competition—so far, indeed, that some are calling for the deal to be blocked on antitrust grounds. (The CME counters that its competition comes from the over-the-counter market, as well as other exchanges.) If ICE wins, the industry's balance of power will shift back towards Wall Street. The CME might then turn its attention to another target, such as the New York Mercantile Exchange, a commodity-futures market.

Nor is Deutsche Börse's offer for ISE certain to succeed. The hedge funds that own half or more of the German group would prefer to see cash returned to shareholders. One of them, Atticus Capital, with a stake of over 11%, has expressed fury at an “emerging pattern of ignoring shareholder concerns and input”. Meanwhile, some of the hedge funds that own perhaps 10-20% of the LSE—which has already seen off four suitors—are quietly nudging it to seek a better offer. Exchanges, it would seem, have cut their old links to brokers only to see them replaced by an even more demanding set of owners.

The pressure to do deals is not coming from poor performance. Indeed, the LSE beat expectations with a 55% rise in operating profits before exceptional items for the year to March. Instead, it is being driven by a fear of being left behind and a belief that exchanges, parochial for too long, need to catch up with the rest of the globalising financial industry.

Mr Thain thinks the future belongs to a handful of exchanges offering a basket of products—equities, bonds, exchange-traded funds, futures, options and more—across several time zones. He is probably right. And with companies worth $30 trillion trading on its platforms—four times more than its nearest rival—NYSE Euronext is well placed to become one of the giants. But would you bet on it? Time, perhaps, for the US Futures Exchange to cook up more of those binary futures.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Sovereign-wealth funds

The world's most expensive club

May 24th 2007 | HONG KONG
From The Economist print edition

Satoshi Kambayashi

China's investment in Blackstone shows how government investors are flourishing at the heart of the financial system

WITH $1.2 trillion in foreign-exchange reserves and the pool growing by more than $1 billion every day, China casts a giant's shadow over the global financial markets, even if it has mostly used the money to pile up American Treasury bonds. The announcement on May 21st that it would invest $3 billion of its reserves in Blackstone, a New York-based private-equity firm soon to issue shares, shows that it is prepared to barge into murky private markets as well as liquid public ones. It is not the only inscrutable country to be cosying up to the inscrutable private-equity industry. Around the world, a secretive society is emerging of governments flush with foreign assets, some of them petrodollars, that are increasingly calling the shots in international finance. The Blackstone deal is likely to stir others to invest their money even farther away from prying eyes than they do already.

Like China, whose proposed Blackstone stake is part of $300 billion that the government plans to set aside this year for investment purposes, dozens of countries have set up what are now commonly referred to as sovereign-wealth funds. They manage money drawn from reserves, natural-resource payments and the like. China is chiefly concerned to diversify its foreign reserves, but other sovereign-wealth funds own national, as well as international, assets.

The top 12 each have anything from $20 billion to hundreds of billions of dollars to invest (see table). Recently, Japan, Russia and India have reportedly been considering setting up funds along similar lines. Some estimates put the size of the funds at $2.5 trillion by the end of this year (in contrast, hedge funds are thought to have a mere $1.6 trillion), with another $450 billion in transfers from reserves being added annually. Including capital appreciation, the amount could swell to $12 trillion by 2015.

Gold sovereigns

Sovereign-wealth funds, estimated assets
March 2007, $bn

Country	Fund	Assets, $bn	Inception year
UAE	ADIA	875	1976
Singapore	GIC	330	1981
Saudi Arabia	Saudi Arabian funds of various types	300	na
Norway	Government Pension Fund - Global	300	1996
China	State Foreign Exchange Investment Corp. + Central Huijin*	300	2007
Singapore	Temasek Holdings	100	1974
Kuwait	Kuwait Investment Authority	70	1953
Australia	Australian Future Fund	40	2004
US (Alaska)	Permanent Fund Corporation	35	1976
Russia	Stabilisation Fund	32	2003
Brunei	Brunei Investment Agency	30	1983
South Korea	Korea Investment Corporation	20	2006

Source: Morgan Stanley

*Not yet finalised

To the extent governments have traditionally held investment assets, it was to protect domestic currencies and banks from crisis. Since the funds were for emergencies, they were of a type that could be liquidated easily—initially the holdings were in precious metals, lately they have been in dollars. The idea of building up an endowment to replace shrinking natural resources did not exist.

That process may have started inadvertently in 1956 when the British administration of the Gilbert Islands in Micronesia put a levy on the export of phosphates—bird manure—used in fertiliser. The manure has long since been depleted. However, a once-tiny set-aside of money has become the Kiribati Revenue Equalisation Reserve Fund, a $520m investment portfolio that has grown to about nine times the tiny atoll's GDP.

A similar approach is now common among oil-producing countries, which, it is estimated, account for two-thirds of the assets in these sovereign-wealth funds, and are keen to diversify their national revenues, aware that their wealth is being pumped away. They have typically invested along similar lines to central banks, holding bonds, dollars and bank deposits. Temasek, a Singaporean entity created in 1974 to pool state-owned investments, started to change the mindset. It subsequently evolved into an even more complex investment vehicle. The heady combination of state-control, success and secrecy, entranced other governments.

Recently, central bankers have also begun wondering whether they have a fiduciary duty to make higher returns from the public wealth under their supervision, which could mean placing at least some part of foreign-exchange reserves in high-yielding, if less liquid, investments. In Asia this question has become increasingly pertinent in the past two years, as reserves have mushroomed.

The result has been a torrent of money into a finite pool of assets. There is no precedent for such fortunes suddenly to find their way into global financial markets, and they help explain the waterfall of liquidity that has driven up the value of risky (and less risky) assets of all descriptions around the world. The world's entire supply of shares is $55 trillion, and bonds account for a similar amount. Sovereign-wealth funds could soon become the most important buyers of such assets, and many others besides. If so, the world will witness the intriguing spectacle of its largest private companies being owned by governments whose belief in capitalism is often partial.

The last time governments were this involved in sinking money into private assets, the process tended to be called nationalisation. Now the funds are invested both abroad and domestically. A new term will have to be coined: internationalisation, perhaps.

Northern light

Of the biggest sovereign funds, only Norway's provides anything close to transparency. Each year it discloses its investment portfolios and returns. Without such a window on their investments, it is hard to fathom the interests of other funds—how they vote on shareholder motions, for example. There are likely to be questions about strategic objectives, too. What will they care about most? Economic returns,

political objectives, securing strategic resources? It will be hard to tell.

Andrew Rozanov, of State Street Bank, argues that the lack of well-defined obligations and the ability to retain funds indefinitely while not having to reveal results is an investment advantage. The funds can harvest the benefits of volatility and illiquidity unavailable to the risk averse. It would not be surprising if some did particularly well. On the other hand, the same factors that could lead to higher returns could also lead to corruption and untoward political intervention.

But the kind of assets the funds invest in—big ones—can generate frictions even when run properly. Temasek has been embroiled in controversy in Thailand after it bought Shin Corp, one of the country's telecoms companies, from Thaksin Shinawatra, the country's deposed prime minister. China is no stranger to such tensions. In an event that still rankles, CNOOC, the state-controlled oil company, was blocked in America, supposedly on national-security grounds from acquiring Unocal, an oil company. It is quite possible that by purchasing a non-voting interest in Blackstone, China will be able to bypass the restrictions that might prevent it doing Unocal-style deals in Europe and America.

By choosing a private-equity firm, China will also be able to invest directly in a partner that, notwithstanding its forthcoming share offering, can keep many of its operations out of the public eye. But this is where the ironies of the deal are most apparent. “Crony capitalism? It is a marriage made in heaven—a partnership that does not want investors to ask questions with a country whose firms do not want investors to ask questions. I worry about the serious conflicts of interest this generates. More generally, government entities shouldn't be in the business of investing in private firms,” opines Raghuram Rajan, of the University of Chicago's Graduate School of Business.

Moreover, it is widely believed that by having China as a partner, Blackstone will receive preferential access to China's market (as well as providing China with experience it clearly covets on how to set up its own domestic private-equity industry). This is an advantage for Blackstone, and for its shareholders, China included, particularly so when other private-equity firms complain that the impediments to operating in China are growing.

However, providing an economic incentive to a lucky few, even if that includes the government itself, impedes China's broader need to create a fair and transparent financial market for all participants. That is what would produce the most efficient market for capital.

China still has vast holdings of state assets, and its embryonic stockmarket is bubbling over—if anything it needs more publicly traded companies. Like other countries with sovereign-wealth funds, it would appear to need more expertise in selling companies that it owns, rather than learning how to buy the ones it does not.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

The OECD and fiscal policy

Words of warning

May 24th 2007
From The Economist print edition

Despite full coffers, governments have no cause for complacency

YOU could sum up the message of the OECD's latest twice-yearly *Economic Outlook* in three words: “As you were.” This week the OECD said that the world economy is performing much as it (and most other forecasters) expected six months ago. As the American economy slows to below trend, Europe's recovery is gathering strength; and the OECD expects further benign rebalancing of global activity. Naturally, predictable caveats apply: the American slowdown could spread beyond housing; financial markets may have underpriced risk.

Just as naturally, amid the general mood of cheer the OECD has found something else to worry about. That something is fiscal policy, despite a marked fall in budget deficits in the past few years. After stripping out one-off effects and adjusting the numbers for the business cycle, OECD members' combined deficit was 1.9% of GDP in 2006, a reduction of 1.6 percentage points in two years. But there is still room for improvement—and the OECD's economists think that the progress so far is less impressive than it looks. They also fear that it could be unravelled.

Almost all of the decline in cyclically adjusted budget deficits last year was due to increases in revenue rather than cuts in spending. Strong profits growth largely explains why the coffers have been filling up. In the past two years almost half of the rise in revenue has come from fatter corporate-tax receipts, which usually make up only 5-10% of taxes. In addition, rising asset prices have pushed up receipts from taxes on capital gains and housing sales. All this has probably flattered the figures, statistical adjustments for the cycle notwithstanding. If profits and asset markets stall, governments will be much less flush.

With a Kantian flourish, Jean-Philippe Cotis, the OECD's chief economist, argues that sticking to tight spending plans should be governments' “categorical imperative”. In fact, the organisation expects no further reduction in cyclically adjusted deficits in the next two years. It thinks America's will rise. And the historical record, presented in a special chapter of the *Outlook*, is not encouraging.

The chapter looks at 85 budget-tightening efforts undertaken since 1978 and tries to identify the conditions associated with success. Deficit cuts based on reduced spending have tended to be deeper and longer-lasting than those founded—as in the past couple of years—on increased revenues. That may be because lower spending leads to lower interest rates and hence stimulates economic activity. But it may be because it demonstrates a determination to limit the budget. When tax revenues go up, demands for new spending can be hard to resist—so that when revenues go down again, a new hole in the budget opens up.

Several countries have adopted rules designed to keep themselves on the fiscal straight and narrow. These usually place bounds on budget balances. However, the OECD finds they have more effect if combined with rules to limit expenditure—so that extra revenues are not automatically spent, as they might be if the fiscal balance were all that mattered. Balanced-budget rules not linked to expenditure limits, such as America's Gramm-Rudman-Hollings act of 1985 and the European Union's Stability and Growth Pact, have been less successful. Of course, it is hard to know whether fiscal rules stiffen finance ministers' spines or whether they are adopted by governments that already have the necessary political will.

Either way, the OECD's warning is a timely one. Though state counting-houses may be full now, it is not hard to imagine how they might be drained. The demands of an ageing population look staggering, unless today's systems are reformed. In Greece the combined toll of health care, long-term care and pensions is expected to amount to 7.5% of GDP by 2025 and 16.8% by 2050. In Portugal the expected burden is 6.1% by 2025, rising to 15.5% by 2050.

The *Outlook* has one more gloomy finding for budget hawks. Not surprisingly, governments are more likely to tighten their belts when budget deficits and interest rates are high—at times, in other words,

precisely unlike these.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Buttonwood

Painting by numbers

May 24th 2007
From The Economist print edition

A new breed of investor is buying art

GOING, going, gone. Sotheby's set a record total for a contemporary art auction this month, raising $254.9m in one night, including the highest amounts ever paid for 15 individual artists. But within 24 hours that figure was smashed by Christie's, its rival, with a $384.7m buying binge, including 26 artist records.

“There's a mood of speculation that I have never seen before in my 50 years in the business,” says Richard Feigen, a veteran Manhattan art dealer. An Andy Warhol piece, Green Car Crash (Green Burning Car I), fetched four times the previous high for a work by the mop-headed guru, set just last November.

One way of looking at high art prices is as part of a global wave of liquidity that is pushing up asset prices everywhere. “From Indian antiquities to modern Chinese art; from land in Panama to Mayfair; from forestry, infrastructure and the junkiest bonds to mundane blue chips; it's bubble time,” says Jeremy Grantham of GMO, a fund-management group.

A variant of the same argument is that high art prices reflect the increasing number of rich people from all parts of the world. Russian and Chinese millionaires, along with hedge-fund and private-equity managers, have run out of houses to buy and yachts to launch, and would like to display their wealth on their walls.

Enthusiasts argue that the market is in a better position than it was in the late 1980s, when the Japanese were paying trophy prices for post-Impressionist paintings. The collapse of the Tokyo property and stockmarkets popped that bubble. This time round, there is a greater assortment of buyers.

But if Mr Grantham is right, and the same forces are driving up all markets, then a crash in share prices could take the art market with it. There will no longer be as many rich people around.

It is virtually impossible to come up with a “fair value” for art. A share should trade at a price equal to the discounted value of the future cashflows received by the investor. But art has negative cashflows; it costs money to insure and store.

Instead, art is what economists call a “positional good”: worth something because it is limited in supply and many people clamour to own it. But, just to make investing even more difficult, people clamour to buy different types of art at different times. According to Philip Hoffman of the Fine Art Fund, an investment firm, English furniture was much-sought-after a few years ago; now few people are interested. Paintings from the 19th century are completely out of fashion.

What is hot at the moment is contemporary art, in particular works created between the late 1940s and early 1970s. A Mark Rothko painting reached nearly $73m, amid rumours that Sotheby's had guaranteed a price of more than $40m to its seller, David Rockefeller. Contemporary art appeals to the new crowd of buyers, Mr Feigen cynically suggests, because “it fits in with the decor of a Chelsea loft.”

So the art investor must decide not just whether there will still be collectors around willing to pay top dollar in five years' time (the “richer fool” theory) but whether that chosen period of art will still attract bragging rights.

Another approach to investing in the art market is to view it as a potential anomaly that may offer excess returns because of its structure. When an artist sells his work, he has four potential buyers: a rich patron (but only if he is very lucky); a dealer, who may be able to find a private buyer; a gallery; and the auction houses. In other words, a lot of middlemen are involved, and they end up taking a good part of the proceeds and could be profitably cut out of a deal.

A new hedge fund, the Art Trading Fund, is trying to exploit the inefficiencies in this system. It has assembled a stable of living artists, whose work it will sell to a network of buyers. Since each artist produces a steady stream of work, they can be viewed as income-producing assets, with a proven earning base of around £2.5m a year. In addition, Justin Williams, its founder, says the fund will also buy art from sellers suffering from the three Ds—death, divorce and debt. It should also be possible to hedge the fund using share derivatives of companies linked to rising art prices, such as luxury-goods providers or Sotheby's itself.

This model shows that high prices are tempting those in the art market to take bigger risks, acting as principals as well as brokers. That will leave them more exposed to a bust. But the founders of the Art Trading Fund reckon art prices are well below their peak in the late 1980s, when adjusted for inflation. Maybe the auctioneers will be talking about a billion-dollar auction before the end of the decade.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Hedge-fund regulation

The heavy brigade

May 24th 2007 | BERLIN
From The Economist print edition

Germany leads a lonely charge for tougher rules

Get article background

PEER STEINBRÜCK, the German finance minister, will not give up. “Don't believe everything you hear from New York and London,” he told *The Economist*. He was referring to differences of opinion on how to reduce the risk that the $1.6 trillion hedge-fund industry poses to global financial stability.

Despite hosting a gathering of G8 finance ministers on May 18th and 19th, Mr Steinbrück found himself a lone advocate of a government-sponsored code of conduct for hedge funds. Although G8 financial authorities broadly agree that a panic sell-off of hedge-fund positions could trigger a general crisis, they are divided over how best to forestall such a disaster. Roughly speaking, the Americans and British believe they can do it through dialogue and vigilance, leaving it to the arms of the regulated investment banks that service hedge funds—known as prime brokers—to keep tabs on the industry's exposures. A few continental supervisors, led by the Germans, believe a set of “voluntary” rules for the hedge funds would be better.

A study published by the Basel-based Financial Stability Forum (FSF) on May 19th outlined the weaknesses in the relationship between hedge funds and prime brokers, such as the loosening of the covenants that enable banks to change lending terms to borrowers that run into trouble. But it skated around the code-of-conduct issue, recommending only that the hedge-fund industry should strengthen today's best practice. The industry itself, through the London-based Alternative Investment Management Association, claims it is supervised enough as it is, because hedge-fund managers in Britain need to register before they start to trade.

In a speech on May 15th Ben Bernanke, chairman of the Federal Reserve in Washington, outlined why in his view it was hard to increase scrutiny of hedge funds. They are not a homogenous group, he argued, and collecting timely data would be difficult and create “moral hazard” if market players felt regulators had the risks under control.

Most European supervisors tend to favour “indirect supervision” of hedge funds by getting closer to their broker dealers. Some might go further, though not as far as Germany.

Philipp Hildebrand, vice-chairman of the Swiss National Bank, who spent five years at Moore Capital, a hedge fund, argues that prime brokers need tools to assess the aggregate risk exposure of their biggest hedge-fund clients to the entire universe of their peers. Only 21 of 152 hedge funds surveyed recently by Britain's Financial Services Authority have more than one prime broker, he notes, but those are probably the biggest and systemically most important ones. He supports an “internationally endorsed” proposal for best practice that governs the relationship between prime brokers and hedge funds.

Danièle Nouy, chair of the Committee of European Banking Supervisors, believes that revised market-risk measures for banks, known as Basel 2.5 because they strengthen aspects of the latest banking accord, will make them more vigilant. It encourages them to think about liquidity and concentration risk.

So why are the Germans so insistent on a government-led code? They argue that British and American regulators are inclined to be soft on a business that brings their big banks so much revenue. The prime brokers “think they're in paradise”, contends Mr Steinbrück. If there is regulatory capture, a turn in the liquidity cycle might teach those in Britain and America a lesson. But until that happens, Germany's stance runs the risk of looking more like sour grapes than anything else.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

UniCredit

The Profumo flair

May 24th 2007 | ROME
From The Economist print edition

How a little-known Italian bank has vaulted into the big league

POSTERS of Miss World in a chalk-stripe business suit sound like a typically Italian way to promote a bank, and Credito Italiano, UniCredit's predecessor, was such a dismal entity that it needed something to brighten its image. No longer. The face of UniCredit is now that of the sharp-suited Alessandro Profumo. Mr Profumo has taken a bank that ten years ago was Italy's eighth-largest, on capital strength, and Europe's forty-sixth, and put a sizzling rocket underneath it. On May 20th UniCredit said that it would take over Capitalia, an Italian bank whose predecessor, Banco di Roma, was once as flashy as Credito Italiano was dull. The deal, due to be approved in July, will propel Mr Profumo to leadership of one of the ten largest banks in the world.

Will that suffice for the ex-McKinsey consultant who talks animatedly about the big picture, but far less so about the grubby minutiae of banking? He joined the bank as deputy general manager in 1994 and three years later became chief executive at the age of 40—young for Italy where grey hair is still a leadership quality. In Italy's turgid banking climate, he wasted no time, bringing a clutch of five public-sector savings banks, including the large ones of Turin and Verona, under Credito Italiano's wing and changing its name.

He then went on a buying spree abroad, chiefly in Eastern Europe. After capturing Poland's Bank Pekao in 1999, he united banks in Bulgaria, Slovakia, Croatia, Romania, the Czech Republic and Turkey. Two years ago Mr Profumo made his biggest strike when UniCredit acquired Germany's HVB, placing it firmly in Europe's front rank.

He oozes self-confidence. Due diligence on Capitalia? Pah! “Due diligence is a cosmetic concept and six weeks of it would have killed the deal,” he argues. But he is also aware of the shifting investment landscape, and believes hedge funds may target any bank that is too small, according to a Milan insider who knows him well. He sees banking in the throes of profound change. Eventually, he says, he would like to sell most of UniCredit's loans, once European securitisation markets are harmonised. That would enable the bank to slash its regulatory capital, as well as parts of the bank that service the loans.

Mr Profumo does not get everything he wants. He had his eye on Société Générale, the French bank that would have been more of a conquest than Capitalia, but came with more political strings attached. He is unlikely to stop trying for world domination, however. In the process, bankers say, UniCredit could usefully beef up its investment-banking business—turning it into an Italian UBS or Deutsche Bank perhaps.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economics focus

The great wall of money

May 24th 2007
From The Economist print edition

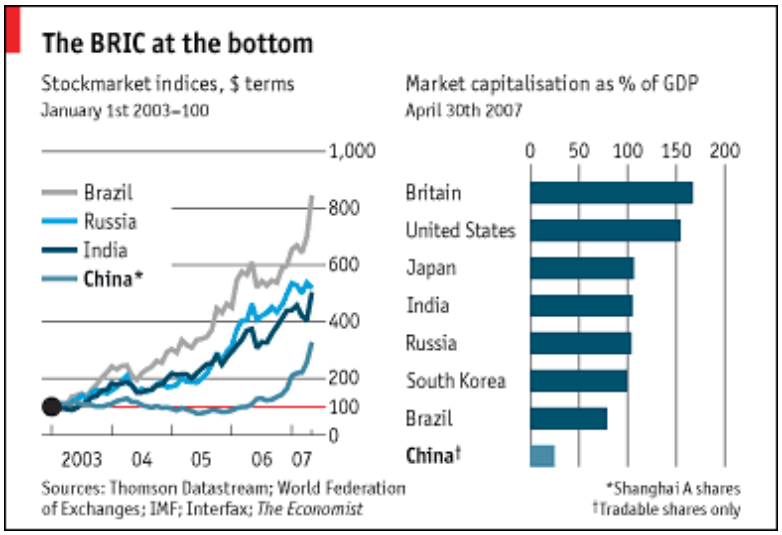
China's economy may be less vulnerable to a bursting of the stockmarket bubble than it appears

Get article background

THE Chinese consider four to be a very unlucky number (because in Mandarin it sounds like the word death). The number 4444 is thus presumably as bad as it gets. So suppose the Shanghai A-share index closes during the next week at 4,444 (it stood at 4,375 on May 23rd), which is quite possible given its 258% gain since the beginning of 2006; might that frighten investors enough to cause the share-price bubble to burst?

It would surely impress them more than the package of measures announced by the People's Bank of China (PBOC) on May 18th: a rise in both interest rates and banks' reserve requirements, and a widening of the yuan's daily trading band against the dollar, from 0.3% to 0.5%. The latter was largely a symbolic gesture coming just days before the second Strategic Economic Dialogue between China and America that started in Washington on May 22nd. It does not imply a faster pace of appreciation, because the yuan had never hit its previous trading limits; within the old band it could have risen by much more than it did. On the other hand, the PBOC's decision to raise deposit rates by more than lending rates (for example, the five-year deposit rate increased by 54 basis points, the five-year lending rate by only nine points) clearly signalled that its aim was to cool the stockmarket, by trying to discourage the shift from bank savings into shares, rather than to squeeze the real economy. The market, however, once again shrugged off the tightening and rose to a new high. That is hardly surprising since interest rates are still ridiculously low: the benchmark one-year deposit rate was raised to 3.06%, but that still left the after-tax real rate negative.

What is peculiar about China's stockmarket is that government officials, the PBOC, the media, investment bankers, not to mention Li Ka-shing, Hong Kong's richest tycoon, and Alan Greenspan, the former chairman of the Federal Reserve, have all warned that it looks like a bubble. This is in striking contrast to most bubbles, notably in dotcom shares and America's housing market, where most officials and financiers remained in denial until they popped. Chinese shares certainly look expensive, with an average price-earnings ratio of almost 50 (based on historic profits). But p/e ratios are hard to interpret when profits are growing so strongly. Over the past decade China's p/e ratio has averaged 37, much higher than elsewhere. According to Goldman Sachs, firms listed on the A-share market enjoyed an average 82% increase in profits in the year to the first quarter. It is also worth noting that China's recent surge followed many years of decline. As a result, China has been the worst performer among the BRIC economies—Brazil, Russia, India and China—since 2003 when the global bull market began (see left-hand chart).



Assume for the moment that this rally is in fact a bubble and that it eventually bursts; what would be the impact on China's economy? Newspapers abound with stories suggesting that everybody from students and pensioners to cleaners and taxi drivers is playing the stockmarket. If true, a collapse in share prices would bring the whole economy down with it. But China's stockmarket is still relatively small, so price movements—up or down—have less impact on spending than elsewhere. Despite the surge in share ownership this year, only 7% of the population own shares, reckons Hong Liang, an economist at Goldman Sachs, compared with around half of all Americans.

A panda or a grizzly bear

The total value of tradable shares—that is, excluding those held by the government—is only 25% of GDP (the market capitalisation is nearly 80%). This compares with 150% in America and over 100% in India (see right-hand chart). And according to an article in the latest *China Economic Quarterly*, a large chunk of tradable shares is actually held by state firms and government agencies, so the true exposure of individuals is even smaller.

Swings in share prices affect an economy in two main ways. The first is through the “wealth effect”: higher share prices encourage consumers to spend more; they then pull in their belts when share prices plunge. When Chinese share prices collapsed by 55% from 2001 to 2005, consumer spending and GDP growth proved robust. Today there are more shareholders, but their holdings are still small. Equities account for less than 15% of Chinese households' total financial assets, compared with half of those of American households' (including their pension funds). In America the share-price boom in the late 1990s made people think that they no longer needed to save, but in China there has been little sign over the past year that people are saving much less; the boom in retail sales has largely matched faster growth in income. If consumers have not spent their capital gains, then a slump in share prices should not have much impact either.

The second channel through which share prices usually affect an economy is the cost of capital; higher share prices make it cheaper for firms to raise equity finance and so they invest more. But only a small proportion of Chinese companies are listed on the stock exchange and those that are rely more on internal finance. About 60% of private-sector investment is funded from companies' own profits and another 20% from banks; issuing shares accounts for only 10%. A stockmarket crash will therefore not make much of a dent on investment.

The direct economic impact of a fall in Chinese share prices would therefore be modest. Some indirect effects could be larger. For instance, the psychological impact of a sharp sell-off could severely puncture consumer confidence. Chinese authorities are also nervous about social and political instability among angry students who have bet their tuition money on shares, or pensioners who have blown their life savings. Another indirect threat is the impact of a collapse in Chinese shares on other markets. A 9% drop in Chinese share prices in late February triggered a brief global sell-off. Given the frothy state of many global financial markets, a full-blown crash in China might thus do more harm abroad than at home. Financial instability could be China's next unwelcome export.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Mass extinctions

It came like yesterday

May 24th 2007 | ACAPULCO
From The Economist print edition

Alamy

The first human inhabitants of North America may not have exterminated the mammoths. The culprit might have been a comet

ARCHAEOLOGISTS know little of what life was like for the first people in America. One thing they thought they knew, however, was that these people hunted mammoths and other large mammals until none was left. Once that had happened, they disappeared themselves.

But the Clovis people of 13,000 years ago, named after the place their characteristic arrowheads and spear-points were first found, may not be a bell-tolling example of the danger of technological progress after all. They may have gone, along with mammoths, short-headed bears, ground sloths and camels, because a comet exploded over their heads.

If that were true, North America would have suffered the first world-changing impact of an extraterrestrial object in the era of modern man. And because it happened so recently—"like yesterday" in the words of James Kennett of the University of California, Santa Barbara—any amateur-archaeologist could inspect the evidence for himself by digging deep enough. In many places in the United States and Canada, at a depth corresponding to 12,900 years ago, a few centimetres of charcoal will appear. This, according to Dr Kennett, is the product of wildfires that spanned the continent after an object roughly a kilometre across grazed the Earth, broke up into ever smaller pieces and deposited all of its oomph as heat into the atmosphere.

Mixed in with the charcoal, as Dr Kennett and a number of his colleagues reported to a meeting of the American Geophysical Union in Acapulco this week, are other bits that point to such an impact. There are glass-like beads made of carbon. To melt carbon requires a temperature of around 4,000°C. Such heat is hard to come by on Earth. And only this month it was discovered, by looking at the beads in an electron microscope, that they are chock full of diamonds a micron or less across. Finding the temperature and pressure to create such diamonds on the surface of the Earth would be impossible, unless a huge hammer-blow from space is meted out.

Something the researchers have not found in this layer is iridium, or at least not a lot of it. This metal is the fingerprint, the world over, of the impact some 65m years ago of an asteroid, in what is now Mexico. That collision caused the demise of the dinosaurs. A lack of iridium is the reason Dr Kennett and his colleagues think the collision they believe they have discovered was with a comet rather than an asteroid. Comets consist of "dirty ice", rather than solid rock, and so contain little iridium.

That something big happened around 13,000 years ago was already known. Palaeontologists have a name for the sudden cooling of the climate of the northern hemisphere that started right then and lasted for over a thousand years. They call it the Younger Dryas.

Before the Younger Dryas, the world had been warming up as the last ice age came to an end. It was this warming that gave the Clovis people and their prey a chance to thrive. But as for the cause of the Younger Dryas, the eyes of science were, until now, directed not up at the sky, but down into the ocean.

Dr Kennett himself contributed to the body of work that suggests changing ocean currents caused the cooling. There is evidence that currents which bring warm water from the tropics to the Arctic, as the Gulf Stream does now, can be pushed around. Dr Kennett worked on the idea that at the start of the Younger Dryas a huge lake of fresh water suddenly breached a wall of ice that had confined it, and flowed into the northern Atlantic Ocean. That would have altered the heat- and salinity-driven dynamics of the area rapidly, stopping the warm current from travelling so far north.

Current thinking

According to Dr Kennett, the essence of this hypothesis is compatible with the cause of the change being an impact. The heat from the impact would have melted a lot of ice, releasing fresh water. So, by way of the ocean currents, the impact would initiate a long-term cooling. This would be in addition to a much less theoretical short-term cooling caused by smoke from the fires and dust thrown into the atmosphere by the impact. It would also explain why the lake required by the original hypothesis has not yet been located.

Once you look at the history of life around 13,000 years ago, things start coming together. Not all large mammals died out. Bison, for instance, kept roaming the plains of America. But Dr Kennett notes that present-day bison are not like the ones the Clovis people hunted. They are smaller—and they are remarkably alike in their genetic make-up. This suggests that all present-day bison are descended from a very small group of animals. According to the clock that ticks off the increase in diversity of the DNA of a group of animals due to the accumulation of random mutations, this “population bottleneck” occurred at the beginning of the Younger Dryas.

Of course, that might just mean that the Clovis people had not quite exterminated bison before they, themselves, disappeared. But if that were true, it would suggest that the Clovis culture vanished suddenly—which raises the question, why?

Dr Kennett suggests two approaches to answering this question. One is to look for evidence of population bottlenecks in other species, especially animals that were not hunted by the Clovis people. If found, such bottlenecks would indicate an external shock to the ecosystem. The other is to examine in detail the archaeological record just above the charcoal layer.

The successor of the Clovis culture, the Folsom culture, is also defined by its arrowheads. So far it has been impossible to decide if these arrowheads were the tools of new people from Asia who replaced their dead cousins, or of a remnant of Clovis people who changed their technology and survived. Now that it seems likely a comet has drawn a sharp line of charcoal between the two cultures, careful measurements should be able to show whether North America was, for a few centuries after the impact, as bereft of people as it has since been of mammoths.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Synaesthesia

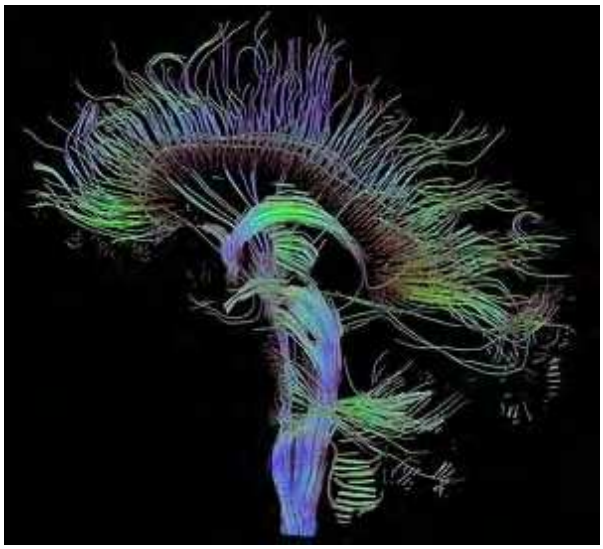
Too well connected

May 24th 2007
From The Economist print edition

Why certain people see words in colour

SOME people have a more complicated sensory life than others. Most taste tuna only when they eat it. A few, though, taste it when they hear a particular word, such as “castanet”. Others link the colour red with the letter “S” or make some other inappropriate connection between stimulus and response. Such people are known as synaesthetes, and the phenomenon of synaesthesia has puzzled brain scientists since it was recognised over a century ago.

Kindlmann/Alexander



The brain, according to diffusion-tensor imaging

Most researchers in the field suspect synaesthesia is caused by crossed wires in synaesthetes' brains, but until recently they have had no way to check this hypothesis. However, the development of a technique called diffusion-tensor imaging has changed that. And Romke Rouw and Steven Scholte at the University of Amsterdam have just applied it to the brains of 18 women (the sex more likely to experience synaesthesia) who have the most common form of the condition. This is called grapheme-colour synaesthesia. It is a tendency to see letters and numbers in colour.

Diffusion-tensor imaging measures the direction of movement of water molecules. Since the filaments that connect distant nerve cells are surrounded by fatty sheaths which restrict the movement of water, such molecules tend to move along a filament rather than out of it. The upshot is that the technique can detect bundles of such filaments running from one part of the brain to another.

Dr Rouw and Dr Scholte chose grapheme-colour synaesthesia to study for two reasons. One was that it is common. The other was because there is a specific hypothesis as to its cause. Earlier brain-scanning studies have shown that the part of the brain which identifies word shape is in an area called the fusiform gyrus. This is next to an area known as V4, which identifies colour. Both light up simultaneously in traditional scanners when someone is experiencing grapheme-colour synaesthesia, so an inappropriate link between them is an obvious thing to look for.

As the two researchers report in the latest edition of *Nature Neuroscience*, diffusion-tensor imaging did, indeed, show strong connections between these two areas in the brains of the synaesthetes when they slid into the scanner and viewed colour-evoking letters and numbers. Other unusual connections showed up too, suggesting the phenomenon is more complex than had been appreciated. By contrast, the brains of 18 non-synaesthetes matched with the volunteers by age and sex showed no such strong connections.

And the revelations went further. Certain types of grapheme-colour synaesthetes have more connectivity than others. As part of the study, Dr Rouw asked her volunteers to fill out questionnaires about how they experience their colour sensations. Some reported seeing colour projected on to whatever word or number they were shown. Members of this group are known as “projectors”. Others, known as “associators”, reported colour only in their mind's eye. Although both groups of synaesthetes had much more connectivity than non-synaesthetes, projectors had noticeably more again than associators.

Dr Rouw and Dr Scholte are not yet sure what form the stronger connections take. They could be the result of more filaments than normal connecting the areas in question. Or the filaments might be broader than normal. Or the fatty coatings of the filaments might be thicker, which would amplify the signal passing along them as well as keeping water molecules on the straight-and-narrow.

How synaesthesia starts (in other words, how the connections become so strong) is also unclear. There is evidence of a genetic component but, as Dr Rouw points out, learning must be involved as well. People are not born with the concept of the letter “A”. And they certainly are not born with a bright-red, cherry-coloured “A”—however much it feels, as synaesthetes insist, as though they were.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Synthetic biology

Gassed up

May 24th 2007
From The Economist print edition

A new, green way to make hydrogen

THE problem with living things is that they do insist on growing. They also insist on metabolising. The reason this is a problem, at least from the point of view of the new science of synthetic biology, is that all this growing and metabolising is a dissipation of effort from the task you want your souped-up bug to do.

Synthetic biology works by taking enzymes from a range of organisms (and sometimes other enzymes that have been tweaked so much that they no longer resemble anything natural), and assembling them into novel biochemical pathways in tame microbes. That allows synthetic biologists to turn out things like drugs and precursor-molecules for plastics more efficiently than traditional chemists can.

But the process would be even more efficient if it separated the pathway from the microbe. And that is what Percival Zhang, of Virginia Tech, has managed. He and his colleagues have taken 13 enzymes, derived from five different organisms ranging from spinach to rabbits via yeast and bacteria, and assembled a pathway that converts starch into hydrogen. No living organism can perform that feat, but it is a trick that might, if commercialised, provide hydrogen for fuel cells cheaply and easily.

To do this sort of thing, you really have to know your enzymes. Most enzymes can perform only one chemical transformation. The art, therefore, is to create a chain in which the output of one provides the input of the next. It is rather like a puzzle in which one word is transformed into another by altering one letter at a time, while always making the result a legitimate word. Except, in this puzzle, the length of the word can change, too. To turn starch (a polymer composed of glucose molecules) into hydrogen (an elemental gas composed of two hydrogen atoms) in this way is no easy task. To complicate things still more, the enzymes in question all have to like the same conditions of temperature and acidity, otherwise they will not be able to work simultaneously.

By diligent searching of the databases, and by including a 14th component known as a co-enzyme, which helps some enzymes to function properly, Dr Zhang has managed this. As he and his team report in the *Public Library of Science*, they then built a reactor that stirred their enzyme mixture up with some starch. Lo and behold, hydrogen bubbled out of it.

At the moment, the cheapest way to make hydrogen is by reacting methane with steam. The methane in question, though, usually comes from natural gas—and that is a problem if the motivation for using hydrogen in the first place is to avoid relying on fossil fuels. This is the goal of those who talk of a “hydrogen economy”, in which that gas would become the fuel of choice. They worry both that fossil fuels are a finite resource and that burning them contributes to global warming.

The goal, therefore, is to make the hydrogen from plants. Dr Zhang's method is a step towards that goal. Though starch is a refined and relatively expensive starting point, his method is more efficient than any of the alternatives that begin with plant matter. It is also a proof of principle. Now, he and his team are working on a still longer chain that starts with cellulose. This is a much more abundant glucose polymer than starch, but is also much harder to break down. If he can get his enzymes to turn cellulose into hydrogen, the dreams of the hydrogen economists really will be a step closer to realisation.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Viagra and jet lag

Mile-high hamsters

May 24th 2007
From The Economist print edition

An unexpected source of recovery from jet lag

VIAGRA, as many men can attest, keeps the muscle that lines blood vessels in a relaxed state for longer than would otherwise be the case. The result is that the vessels remain open, blood-flow stays high and tissue remains taut. This happens because the drug inhibits an enzyme called phosphodiesterase that would otherwise mop up a chemical called cyclic GMP. Cyclic GMP's job is to tell muscle cells to chill out.

That is all well and indeed good. However, cyclic GMP is an all-purpose biochemical tool. It is also employed, for instance, in cells of the suprachiasmatic nuclei. These brain cells act as the body's internal clock. Some maintain a natural rhythm of roughly 24.5 hours (thus a human kept in the dark will gradually fall out of synchronisation with the day). Others entrain that rhythm to the light and dark cycles detected by the eye.

Diego Golombek and his colleagues at the National University of Quilmes, in Buenos Aires, realised the biochemical connection between Viagra and the circadian rhythm. They had previously shown that completely blocking cyclic GMP stops rodents from adjusting their internal clocks to time-zone changes. At least it does in one direction. Flip the daylight regime forward, as though the rodent is flying east, and cyclic GMP is necessary for the internal clock to adapt. Flip the regime backwards, as though flying west, and the chemical has nothing to do with making the adjustment.

With this insight, Dr Golombek and his colleagues decided to give their hamsters Viagra. Given that cyclic GMP helps shift the body's circadian clock, it seemed reasonable to Dr Golombek to ask whether manipulating the level of that chemical might change the rate at which the shift can happen. As they report in the *Proceedings of the National Academy of Sciences*, it does.

Hamsters are particular about when they climb into a wheel and begin running. Every day they start within five minutes of darkness. A hamster flown from Chicago to London would adjust gradually (as do humans). It would move its exercise schedule a little each day until it began running within five minutes of London darkness. Then it would stick with the new schedule.

Dr Golombek and his colleagues shifted their hamsters' daylight regimes by exactly the Chicago-London time difference—six hours—and injected Viagra on the same day. One group of hamsters received enough of the drug to develop erections. These took about six days to adjust their body clocks. Another group that was given a smaller dose took eight days to adapt. Hamsters that did not receive Viagra took 12 days.

This suggests—assuming humans react like hamsters—that half a little blue pill could help executives travelling from North America to Europe, or Europe to Asia, without the men among them developing certain side-effects. Women, perhaps, could hazard a higher dose.

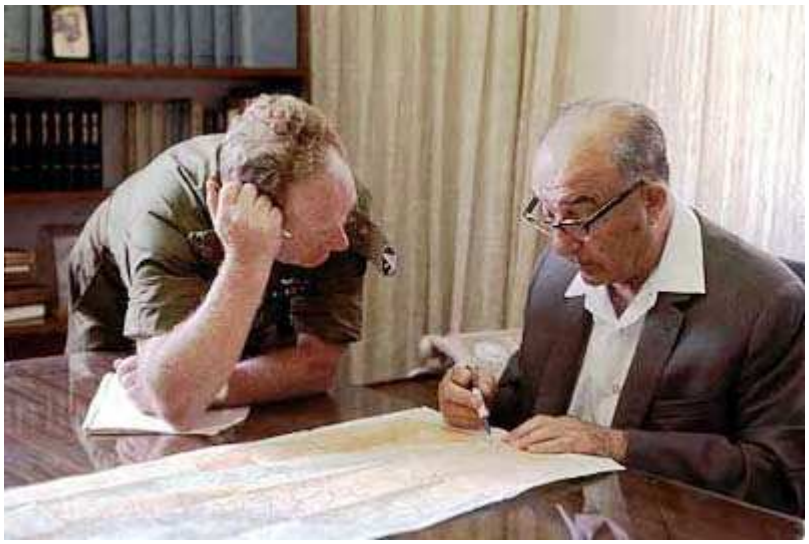
Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

The six-day war

Jews and Prussians

May 24th 2007
From The Economist print edition

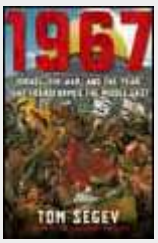
Corbis



The intra-Israeli conflict between elderly politicians and youthful generals in the weeks leading up to the war

AT WELL over 600 pages, this is a door-stopper. But anyone curious about the extraordinary six days of Arab-Israeli war that appeared to erupt from nowhere 40 years ago this June, changing the face of the Middle East for ever, will learn much from it. To understand why the war took place, Tom Segev argues, it is not enough to know the diplomatic and military background: it also needs deep knowledge of the Israelis themselves. And this is what he brilliantly provides. By drawing on letters, diaries and interviews, as well as Israel's rich official archives, Mr Segev mixes a meticulous narrative with a shrewd analysis of the complex Israeli psyche.

1967: Israel, the War and the Year that Transformed the Middle East
By Tom Segev



Metropolitan Books; 688 pages; $35.
Little, Brown; £25

Buy it at
Amazon.com
Amazon.co.uk

The broad sequence of events is familiar. On Israel's independence day in May 1967, Egypt's President Nasser abruptly reinforced his army in the Sinai peninsula. He then demanded the withdrawal of the UN peacekeepers from his border with Israel and blockaded Israeli shipping in the Gulf of Aqaba. Israel's people panicked and its leadership was cast into confusion. Was Nasser merely trying to deter the Jewish state from attacking Syria, after months of small-scale clashes there? Did he intend to bomb Israel's Dimona nuclear reactor before Israel could acquire a bomb? Or was he intent on full-scale war? Some of the most arresting passages in Mr Segev's account lay bare not only the disagreements within Israel's cabinet, but also the sharp clash of culture and mentality between Israel's cautious, elderly leaders and the new state's youthful generals.

Their difference in outlook had surfaced earlier, as Israel began to face a wave of Palestinian military raids. In the 18 months before the war, almost 120 acts of sabotage were carried out in Israel, mainly by Yasser Arafat's new Fatah movement, infiltrating from Syria and Jordan. Israel responded with large-scale “retaliation raids”. Believing attack the best form of defence, the Israel of the 1960s did not greatly fortify its borders. “Aggression”, said Moshe Dayan, a legendary war hero, was in the army's “bones and spirit”.

In this, argues Mr Segev, the difference between the generals and the politicians was not just tactical

(the cabinet would have preferred more fences and ambushes) but ideological and psychological. The generals saw the politicians—many of them east Europeans and older than the generals by three decades or so—as prisoners of a diaspora mentality. By fencing Israel in, they thought, the old men would turn the new state into a ghetto. Indeed, Yitzhak Rabin, at that time the army chief of staff, referred to the prime minister, Levi Eshkol (seen above with his military secretary just before the war began), and his ministers as “the Jews”. Eshkol for his part liked to call the generals *Preissn* (Prussians, in Yiddish).

Another element in the war's prehistory was Israel's despondency in the mid-1960s. The crisis fell upon a country in a quicksand of depression. Having lost the leadership of the charismatic David Ben Gurion, it had acquired a ditherer in the mild and thoughtful Eshkol. With a stagnant economy, an increase in emigration and a growing social rift between Israel's Ashkenazic (western) and Sephardic (eastern) Jews, there existed a widespread belief that the Israeli dream had run its course. “All these feelings welled up in the week before the war, sweeping through the nation in a tide of insanity,” says Mr Segev. “The people had not felt this wretched and isolated since the Holocaust.”

In such an atmosphere, and given the feebleness of international diplomacy (in America the Johnson administration was preoccupied by Vietnam), it was perhaps inevitable that the generals' case for a pre-emptive war would win the day. According to Mr Segev, a whiff of mutiny, almost a coup, was in the air. If Israel did not strike, the generals told their wavering masters, the Jewish state was doomed. But if Israel struck first, the Arabs would collapse: “They're a bubble of soap, and with one pinprick they'll burst.”

And so it proved. Israel struck on June 5th. Within six days, it had conquered the Sinai peninsula, the West Bank and the old city of Jerusalem. On the seventh day came the euphoria. Mr Segev describes the Israelis descending on the West Bank like explorers landing on a yearned-for continent, many experiencing a religious exaltation, and swiftly coming to see it as the true Israel, the land of biblical promise. Would they hand it back in return for peace? With the exception of a secret approach from Jordan's King Hussein, the Arabs did not put them to the test.

Some will cavil at the author's conclusion that there was no justification either for the panic that preceded the war or for the euphoria that followed it. Historians enjoy the luxury of hindsight, and the fears that swept Israel 40 years ago were real enough. Nor can a history written entirely from Israel's point of view, with no access to the Arab archives, ever be more than half the story. But Mr Segev's is a marvellous achievement for all that.

1967: Israel, the War and the Year that Transformed the Middle East.
By Tom Segev.
Metropolitan Books; 688 pages; $35.
Little, Brown; £25

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Garibaldi

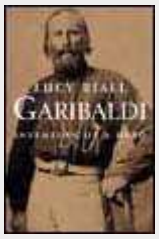
An idol of his own design

May 24th 2007
From The Economist print edition

“WHAT a man! What prestige! He has the ability to excite everyone who sees him.” Thus did *Le Siècle*, a French republican newspaper, characterise the gathering wave of enthusiasm for Giuseppe Garibaldi. In 1860 he nearly drowned in a sea of love after capturing Sicily against ferocious odds, marching his troops through Calabria and thereby ushering in the new nation of Italy. A volunteer from Bergamo, witnessing Garibaldi's startling conquest of the south, recorded how the mere sight of the hero reduced normally sane observers to quivering goose-flesh: “The very soul of the people seemed transfused in him.”

In a study coinciding with the bicentenary of Garibaldi's birth, Lucy Riall, a professor at the University of London, also notes the trail of broken-hearted women that he left behind. But the cultivation of his renowned sexual appeal was as much political strategy—reaching a new constituency—as amorous design. “The General” (as he was known) was a shrewd politician and anti-politician rolled into one.

Garibaldi: Invention of a Hero
By Lucy Riall



Yale University Press; 496 pages; $35 and £25

Buy it at
Amazon.com
Amazon.co.uk

This is not traditional biography: virtually nothing is said of his infancy, youth or inner life. Rather, it is a history of cultural images. In setting out her hall of mirrors, Ms Riall has diligently mined obscure relics, cartoons, pamphlets, letters, novels and newspapers. Garibaldi suffered enormously for the Italian cause but his tribulations were also heavily spun—he had to incarnate the nation's “romantic agony”, not just his own personal Calvary. Such was his fearlessness in battle that contemporaries understandably considered his survival to an arthritic old age to be a miracle.

A staunch follower of Giuseppe Mazzini (the so-called “prophet of Italy”) in the 1830s, Garibaldi fled to Latin America after a failed mutiny. In exile he was frequently pictured on horseback, casually attired in his poncho, fighting for various insurgencies. Denounced by conservatives as a dangerous revolutionary bandit, he embodied (all the more so as he grew older) a militantly dissident form of democracy—alongside a much less attractive penchant for dictatorship.

He returned to Italy in 1848, a year of European revolutions. After his doomed endeavour to resist the French army that had come to crush the Roman republic and restore the pope, his stature grew, especially in liberal Protestant England. In the 1850s he came to favour the Piedmontese monarchy, but his detestation of the papacy continued, proving more enduring than his republicanism.

The *Illustrated London News* presented him replete with a tall, round Puritan hat, his flamboyance signalled by an ostrich feather. As the cartoonist commented, “He is a remarkably quiet-looking person, but wonderfully picturesque: he wore a white sort of cloak lined with red, and having a green velvet collar; it had plenty of bullet holes in it.” Britons still munch on the eponymous biscuits created after Garibaldi's triumphal tour of the country in 1864, when he intoxicated workers, shopkeepers, clergymen, lords and ladies alike.

Sociology was not yet a discipline, but before the century was out, mass idealisation of this sort would lend itself to the scientific study of charisma and group psychology. After Garibaldi's death in 1882, an official national cult did its best to sanitise the hero worship, airbrushing away the old hero's biting criticism of poor or corrupt government. But his image never entirely lost its incendiary appeal.

Critical of earlier historians who tended to treat Garibaldi with condescension, Ms Riall is anxious to display him as the resourceful manipulator of his own legend. There is much to be said in favour of this approach. But in rebutting the myth that he was a simpleton or a chameleon, she underplays his contradictions.

She allows that his love life had its jarring moments. He impulsively wed a second time but instantly dumped his bride on learning that an earlier liaison had led to her pregnancy. He could, she observes, be hurt, unforgiving, venomous and confused. But in the public realm, she pictures a much smoother operator. Her portrait is of a man constantly “alert to his singular importance as a political actor” but curiously lacking in the emotional convulsions that he incited all around him.

Garibaldi: Invention of a Hero.
By Lucy Riall.
Yale University Press; 496 pages; $35 and £25

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Thomas Bewick

Plain man's art

May 24th 2007
From The Economist print edition

WE STILL see Thomas Bewick's wood engravings everywhere, on jam labels, tea towels, books, birthday cards, often not knowing what they are. Taking good printed images so much for granted, we are not likely to linger but when Bewick made them there were hardly any accurate images of birds, animals or everyday country scenes available. Wood engravings were the plain man's art and had been very crude before Bewick transformed them.

His work surprised people almost as much as it pleased them. Wordsworth was one of the first to praise it. Charlotte Bronte made Jane Eyre thrill to it. One of the charms of this beautifully produced biography is that it restores their original power to little works of art, many of which appear as illustrations.

Bewick was born in 1753 on a smallholding beside the river Tyne in Northumberland. He was a truanting boy, happy when rambling the fields and woods or trying to draw, and his sensible family allowed him to follow his bent. At 14 he was sent a few miles down river to Newcastle-upon-Tyne to be apprenticed to an engraver, and in that busy, vital little city he was to spend the rest of his days, becoming famous for doing what he wanted to do.

Nature's Engraver: A Life of Thomas Bewick
By Jenny Uglow

Farrar, Straus and Giroux; 480 pages; $30.
Faber and Faber; £20

Buy it at
Amazon.com
Amazon.co.uk

Famous because his work answered a newly felt need. What has been described as a “natural-history revolution” ran parallel with the industrial revolution, as the rewards of a scientific approach to life became apparent. All over the country people were tapping rocks, collecting shells, studying ferns, observing birds.

Bewick himself had no wish to be “modern”. He adhered to the traditional techniques of wood-engraving, which he took further than anyone before him. He detested the movement that brought about the enclosure of land and much preferred the tremendous walks of his youth and middle-age to the train journeys that became possible when he was old. But he was an excellent naturalist as well as a gifted artist, so his accurate birds and animals were just what a “scientifically” inclined public wanted.

Jenny Uglow's evocation of the mood of his times is as detailed and good as her portrait of the man. He was bluff, stubborn, warm, generous (sometimes foolishly so), brisk with his apprentices but as proud of their achievements as he was of his own. Sometimes he became flustered and got into muddles, but his friends learnt to stand back and let him find his feet again, which he always did. Those friends, and his family, loved him and everyone respected him—feelings which build within the reader, too, as the book progresses. Ms Uglow is a fine biographer whose mastery of her medium never draws attention to itself. In Thomas Bewick one feels that she has found a subject after her own heart.

Nature's Engraver: A Life of Thomas Bewick.
By Jenny Uglow.
Farrar, Straus and Giroux; 480 pages; $30.
Faber and Faber; £20

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

New fiction

The resilience of women

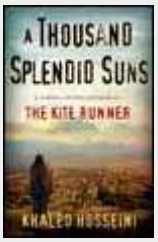
May 24th 2007
From The Economist print edition

FANS of “The Kite Runner”, Khaled Hosseini's much admired first novel which has sold more than 8m copies worldwide, will not be disappointed by his second. This is another sweeping Afghan saga that once again reveals the author's talent for storytelling and his love for his homeland.

“A Thousand Splendid Suns”, which takes its title from a poem about Kabul by Saib-e-Tabrizi, a 17th-century Persian poet, is a multi-generational story that unfolds over 45 years. It offers a larger cast of characters and a more detailed chronicling of Afghanistan's recent political history than “The Kite Runner”, but returns to the same theme: the strength of the human spirit in lives overwhelmed by cruelty.

Unlike his debut novel, a story of friendship and loyalty told from a male perspective, Mr Hosseini's new book revolves around the lives of two women. Mariam, born out of marriage to a wealthy father who rejects her, is married at 15 to a shoemaker, Rasheed, who grows increasingly brutal towards her when she fails to give him an heir.

A Thousand Splendid Suns
By Khaled Hosseini



Riverhead Books; 384 pages; $25.95.
Bloomsbury; £16.99

Buy it at
Amazon.com
Amazon.co.uk

Eighteen years later, Rasheed takes a second wife, Laila, the 14-year-old daughter of educated parents killed in a rocket attack. Over the years, and against a backdrop of civil war and the rise of the Taliban, a bond develops between Mariam and Laila as they become allies in a personal war against their husband, a man they despise for his violence but upon whom they depend for survival.

The book works well on several levels. At its heart are its engaging characters, drawn with a sensitive hand; even minor players have a rounded appeal. The plot encompasses suicide, rejection, murder, execution, love, sacrifice, exile and return. People and plot are grounded in the history of a country in deep turmoil for nearly half a century.

It is Mr Hosseini's insight into the lives of ordinary Afghan women that gives this story its strength. He describes the cruel patriarchy: the forced marriages; the restrictions on women's freedom of movement; the banning of women from education and work; the closure of women's hospitals; the day-to-day harassment, humiliation and beatings. His portrait of their remarkable resilience in the face of oppression is likely to make his book another well-deserved bestseller.

A Thousand Splendid Suns.
By Khaled Hosseini.
Riverhead Books; 384 pages; $25.95.
Bloomsbury; £16.99

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

American weddings

Beware the bridezilla monster

May 24th 2007
From The Economist print edition

FOR the sake of a fairy-tale wedding, engaged American couples will take on inordinate debt or forgo buying a house. With the average American wedding costing nearly $28,000, enter the “bridezilla” phenomenon. This refers to the sort of tyrannical bride who seethes over details like her bridesmaids' pumps and her tiara's height, terrorising everyone in her path. In an entertaining book, Rebecca Mead, a staff writer at the *New Yorker*, considers the social conditions that gave birth to this bridal monster.

She finds an answer in the $161 billion American wedding industry and its message: a perfect wedding means a perfect marriage. At one time, a bride's background dictated how she got married, but nowadays she seldom feels constrained by religious or cultural traditions. The wedding has shifted from a rite of passage to a vehicle for self-expression. However, even an independent woman will still seek some voice of authority when it comes to marriage. Here the wedding industry swoops in, loudly appointing itself official counsellor. “If a bride buys into the wedding industry”, writes Ms Mead, “she is promised the happily-ever-after that she, in her big white dress and tiara, deserves.”

One Perfect Day: The Selling of the American Wedding
By Rebecca Mead

Penguin Press; 256 pages; $25.95

Buy it at
Amazon.com
Amazon.co.uk

In the vein of Jessica Mitford's exposé of the funeral industry, Ms Mead reveals the unromantic underbelly of the wedding industry. Companies are intent on peddling a constant stream of new products and services but, perversely, the concept of tradition still drives the business. To handle this contradiction, they employ specialists to convince couples to create new “traditions”, such as “heirloom ornaments” for members of the bridal party.

Ms Mead takes special pleasure in “traditionalesque”; commerce disguised as tradition. An example of the traditionalesque would be the “Apache wedding prayer”, read by a freelance multi-faith wedding minister called Joyce Gioia, when neither the bride nor the groom nor the prayer itself has anything to do with Apache culture (the prayer was invented for a Hollywood movie called “Broken Arrow”). Ms Gioia's inspired services (which cost about $1,000 for 18 minutes) often include candle and honey ceremonies, and other invented or bastardised rituals that Ms Mead dismisses as pretty hollow.

In her epilogue the author suggests that independent-minded women should accept the loss of old traditions and make their peace with the new situation. This rather sweeping opinion seems out of tone with the rest of the book which, with wit and style, condemns the industry for crudely colonising an event that many still consider sacred.

One Perfect Day: The Selling of the American Wedding.
By Rebecca Mead.
Penguin Press; 256 pages; $25.95

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Self-portraits

How they wanted to be seen

May 24th 2007
From The Economist print edition

A selection of self-portraits from the Uffizi comes to London

EVERY year millions of people cross the Ponte Vecchio in Florence not knowing that above them is a corridor displaying the world's greatest collection of self-portraits. Even those who do know may well be unable to see them. The Vasari corridor, built in 1565, connects the Pitti Palace with the Uffizi Gallery. Although it has been spruced up and re-hung, most recently in 1996, the corridor is closed to all save the most persistent or well-connected because of a chronic shortage of guards.

The exhibition of “Artists' Self-Portraits from the Uffizi” at the Dulwich Picture Gallery is therefore a rare treat, even for Florentines. It came about by accident. Museums plan their schedules years ahead, but the Uffizi made a last-minute decision to offer the pictures to London—and Dulwich had an opening because planned maintenance work proved unnecessary.

Dulwich Picture Gallery

A message from Filippino

Leopoldo de Medici started the collection of self-portraits in 1664. It now contains 1,630 works and is growing. A selection of 50 of them are on view in Dulwich, hung chronologically in rooms painted a warm, blue grey. Entering a generously proportioned sky-lit cube, the visitor comes face to face with Filippino Lippi, frescoed on tile in 1485. This haunting image of a thoughtful young man gently seizes your attention and doesn't let go. Not all the self-portraits are so memorable. But it is fine to start on such a high note.

Among Filippino's near neighbours are a middle-aged Rembrandt (1655, authorship disputed), Marietta Robusti (1580), the stiff, shy, music-loving daughter of Tintoretto, and next to her a moving 1585 self-portrait by the Venetian master himself. Distressingly, however, Tintoretto looks as if a tailor scissored out his head, had misgivings and quickly stitched it back. The catalogue explains that originally the picture was a small head but had been greatly enlarged in Leopoldo's time.

The stature of artists rose during the Renaissance, as the existence of this collection illustrates. But grandees felt entitled to do what they pleased with the art they possessed—an attitude that has persisted in some high places (in 20th-century Britain, for example, the late dowager Duchess of Devonshire encouraged her grandchildren to use paint to brighten up Hardwick Hall's superb 16th-century tapestries).

In Dulwich four narrow rooms lead out from the first, echoing the Vasari corridor. As in Florence, the main source of illumination is daylight. On the artists march: William Merritt Chase (1908), stares through his pince-nez, a character straight out of Henry James. Joshua Reynolds (1775), already president of the Royal Academy of Arts, seems worried whether the Uffizi will take to him (he was a hit). Sighting Giacomo Balla along a corridor lifts the spirits. Radiating humanism and painterly skill, Balla raises a coffee cup to his lips. He appears cheery but not self-deluding. It was painted in 1928, a time, he wrote, when “brutality rules everywhere”.

There exist many paintings of artists by other artists, of course. But the distance between viewer and subject usually seems greater than when artist and subject are one. Looking at these self-portraits, there is a quick sense of engagement. And nobody need feel philistine if the subject matter seems more compelling than the technique or art history. These paintings were commissioned or solicited to record how great artists, and those not quite so great, saw themselves or wanted to be seen.

"Artists' Self-Portraits from the Uffizi" is at the Dulwich Picture Gallery, London, until July 15th.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

New fiction

Life under the shadow

May 24th 2007
From The Economist print edition

THIS is a frequently beautiful but perplexing book. It concerns the life, after the terrorist attacks of September 11th 2001, of its two main characters, Keith, a New York lawyer who survived the collapse of the World Trade Centre, and his wife, Lianne. Not a great deal happens. Fittingly for a novel that elaborates so many images and ideas of falling, the momentum is downward, or at least inward, rather than forward. Don DeLillo's question is “What more?” rather than “What next?”

Falling Man
By Don DeLillo

Scribner; 246 pages; $26.
Picador; £16.99

Buy it at
Amazon.com
Amazon.co.uk

His account of the attacks is clear, precise and terrible. But he conjures a sense of terror more in glints and echoes than in great explosions. This comes across strongly, for example, in the brief descriptions of a group of children who scan the skies for aeroplanes, convinced, after the event, that the twin towers still stand but will be levelled in a further terrorist atrocity.

Such passages are astounding. But most of the book is given over to clotted analysis of its characters' equally clotted states of mind. Keith seeks oblivion in poker; Lianne casts about for emotional support, first in volunteer work for a group of Alzheimer's patients and then, eventually, in religion. They communicate in terse sentences that might have been lifted from a philosophy primer. It is just about possible to believe that this is done in the interests of realism—maybe this is how educated, damaged people think, react and talk to each other. But it does not read that way. It is wooden and unnatural, at best.

Mr DeLillo is one of the great New York writers and here he is writing about the biggest moment in the city's recent history. But the grand scale of the subject is of little use to him. “Falling Man” is an intermittently wonderful book of small details. The same is true of his previous novel, “Cosmopolis”—another frustrating book overall but one that, to this reviewer's mind, contains some of the finest passages in all of Mr DeLillo's work. Here, again, the parts are often dazzling. But the whole seems less than the sum of those parts.

Falling Man.
By Don DeLillo.
Scribner; 246 pages; $26.
Picador; £16.99

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Malietoa Tanumafili II

May 24th 2007
From The Economist print edition

AP

Malietoa Tanumafili II, head of state of Samoa, died on May 11th, aged 94 or 95

SOMEWHERE between Fiji and French Polynesia, if you are looking at a map, or St Vincent and San Marino, if it is a reference book, you will find Samoa. Used to such micro-state company, the Samoans do not seem to mind much that foreigners find them difficult to pin down. They take pride in their island culture, and also in the tranquillity of their politics, which keeps them off the front pages of the world's press. That blessing they owe, to a large extent, to Malietoa Tanumafili II, who nursed Samoa to independence in 1962 and then presided as head of state, jointly for 16 months and thereafter on his own for the following 43 years.

It is unclear whether Malietoa—the name, meaning “brave warrior”, is one of the titles held by Samoa's four paramount chiefs—was 94 or 95 years old when he died. His age was rebased, much as some countries' national incomes are, a couple of years ago. It hardly matters. The point is that his benign influence helped to keep Samoa stable and peaceful in a part of the world that often defies its image of earthly paradise, all juicy coconuts, exotic flowers and grass-skirted islanders paddling their dugouts across azure atolls, or swaying in blissful harmony under the palm trees.

Samoa was certainly rather different from this when Robert Louis Stevenson, the author of “Treasure Island”, arrived in 1889. He found three tribal chiefs squabbling over the throne and three alien powers, Britain, Germany and the United States, squabbling over the trading possibilities. The upshot was that the wrong man—in Stevenson's eyes—got the throne, the Germans got the nine islands of western Samoa and the Americans got the others (they still have them). All this happened after a short little war between the followers of the two disappointed pretenders. Even so, Stevenson decided to settle in Samoa, and that is where he died.

The islands' recent history has been calmer. Only one notable unpleasantness marked Samoa's politics in Malietoa's time, the murder of a minister of public works in 1999, allegedly to prevent him from revealing the details of a corruption scandal. Two former cabinet colleagues were convicted of plotting the deed, and the son of one of them of carrying it out. All were sentenced to death, though Malietoa subsequently commuted their sentences to life imprisonment. In due course, Samoan politics returned to equilibrium.

Other countries in the region have been less fortunate. Like Samoa, both Fiji and Tonga have lost former heads of state in recent years: Ratu Sir Kamisese Mara, a former president of Fiji, died in 2004 and King Taufa'ahau Tupou IV of Tonga died in 2006. In both places trouble soon followed. Fiji, which had suffered two coups in 1987 and another in 2000, experienced yet another last December. And by then Tonga was riven by rioting. Instability has also afflicted Papua New Guinea, Vanuatu and the Solomon Islands, where riots followed an election last year.

If Samoa is now lucky enough to escape similar turbulence, it may have to draw on the new tradition of power-sharing that Malietoa helped to entrench. Until independence, an older tradition held sway in Samoa, one that meant politics were dominated by the islands' four paramount leaders. Inevitably, they were sometimes competitors. When the time came to choose the *Ao o le Malo* (head of state) in 1962, Malietoa Tanumafili's 23 years as one of the four chiefs made him an obvious choice, but the other three were not excluded: one shared Malietoa's job, one became prime minister and one was appointed to the Council of Deputies, a sort of collective deputy head of state.

Parliament will choose the next *Ao o le Malo*, but most people believe he will be another paramount leader—not, presumably, another Malietoa, nor a Mata'afa (that chieftaincy is also vacant), but perhaps the incumbent Tamasese, a former prime minister. However, the office could be opened to less-elevated candidates.

Either course presents risks. As a former politician, Tupua Tamasese Efi is considered by some to be too partisan for the conciliatory role that Malietoa performed so well. On the other hand, many Samoans may not be ready for a head of state who is not drawn from the ranks of top chieftains.

Habits, ancient and modern

The gulf between tradition and modernity lies at the heart of Samoa's politics. Fortunately, the Samoans have often proved ingenious at overcoming the ensuing difficulties. For instance, only *matai*, family heads, may stand for parliament, but since *matai* are popularly selected, and since some 35,000 such titles exist among a population of 186,000, the system is not utterly undemocratic.

Malietoa, too, acted as a bridge between imported attitudes and indigenous values. In a devoutly Christian country—many villages enforce prayer curfews each evening—he was a follower of the Baha'i faith, or at least strongly sympathetic to it. A keen golfer into his 90s, who could often be seen trundling around in his buggy, he appealed not only to the elderly but to the younger Samoans who play cricket, rugby and, increasingly, American football. He may even have approved of his ministers' culinary tastes: 50 hamburgers, plus fries and drinks, were reported to have been delivered when the cabinet met last week.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Overview

May 24th 2007
From The Economist print edition

China tightened its monetary policy, as well as tinkering with its currency regime, in advance of its strategic chinwag with America. It raised the interest rate on one-year savings deposits by 0.27 percentage points, to 3.06%, and the one-year lending rate by 0.18 percentage points, to 6.57%. Banks' reserve requirements were raised for the eighth time in a year. The daily trading band within which the yuan can fluctuate against the dollar was widened to 0.5% up or down, from 0.3%.

Despite rising petrol prices, **America's consumers** grew in confidence in May, according to the University of Michigan's survey.

The **euro area** ran a €7.4 billion trade surplus in March 2007. Its exports were up 1.2%; its imports down 2.6%. New orders for industrial goods—excluding ships, railway and aerospace equipment—grew by 2.7%.

Taiwan's industrial production grew by 2.6% in the year to April, compared with just 0.4% in the year to March.

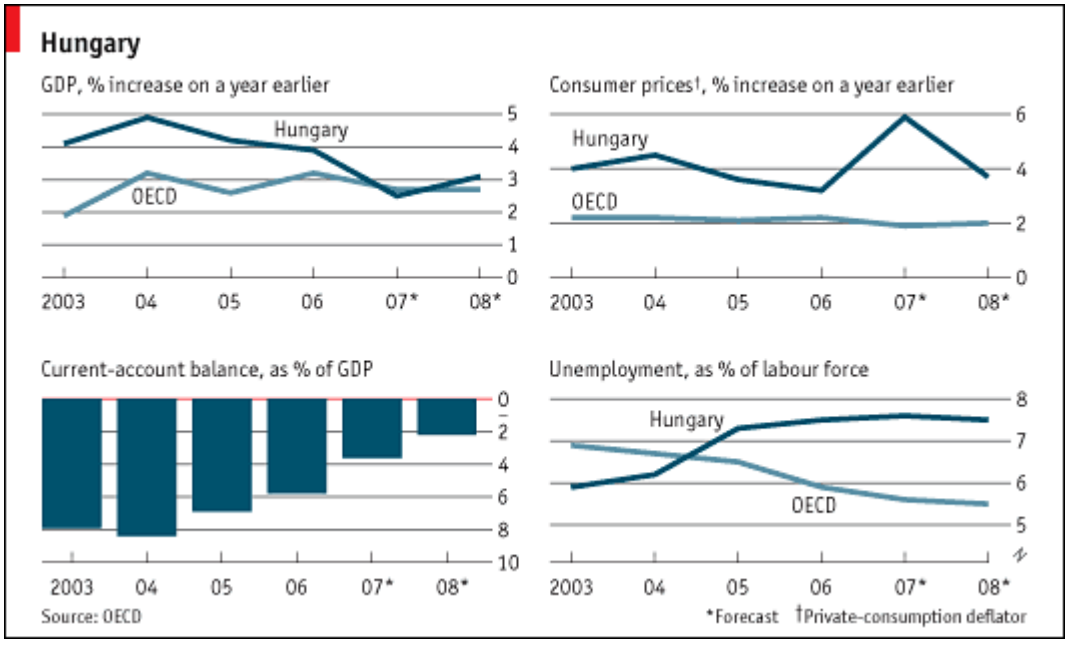
Thailand's central bank cut its key interest rate from 4% to 3.5%, its fourth cut this year. The economy has yet to recover from the political upheaval of September's coup.

Hungary's central bank left its key interest rate on hold. The OECD, in its latest survey of the country (see charts), praised the government's efforts to cut its fiscal deficit, which reached 9.2% of GDP last year. It also recommended shorter maternity leave, which can last up to three years.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Hungary

May 24th 2007
From The Economist print edition



Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Output, prices and jobs

May 24th 2007
From The Economist print edition

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2007†	2008†	latest	latest	year ago	2007†	rate‡, %
United States	+2.1 Q1	+1.3	+2.1	+2.7	+1.9 Apr	+2.6 Apr	+3.5	+2.4	4.5 Apr
Japan	+2.0 Q1	+2.4	+2.4	+2.2	+1.6 Mar	–0.1 Mar	–0.2	nil	4.0 Mar
China	+11.1 Q1	na	+10.3	+9.7	+17.4 Apr	+3.0 Apr	+1.2	+2.8	9.8 2006
Britain	+2.8 Q1	+2.6	+2.7	+2.5	–0.2 Mar	+2.8 Apr**	+2.0	+2.3	5.5 Mar††
Canada	+2.3 Q4	+1.4	+2.3	+2.7	–1.2 Feb	+2.2 Apr	+2.4	+1.9	6.1 Apr
Euro area	+3.1 Q1	+2.4	+2.4	+2.1	+3.7 Mar	+1.9 Apr	+2.4	+1.9	7.2 Mar
Austria	+3.2 Q1	+3.2	+2.8	+2.6	+8.6 Feb	+1.8 Apr	+1.9	+1.6	4.4 Apr
Belgium	+2.8 Q1	+2.4	+2.4	+2.2	+2.0 Mar	+1.8 Apr	+2.0	+1.8	11.0 Apr‡‡
France	+2.1 Q1	+2.4	+2.1	+2.1	+1.1 Mar	+1.3 Apr	+1.7	+1.4	8.3 Mar
Germany	+3.6 Q1	+2.1	+2.3	+2.1	+7.7 Mar	+1.9 Apr	+2.0	+1.8	9.2 Apr
Greece	+4.6 Q1	na	+3.2§	+3.1§	+0.1 Mar	+2.5 Apr	+3.3	+2.8§	9.0 Feb
Italy	+2.3 Q1	+0.8	+1.9	+1.6	+1.6 Mar	+1.5 Apr	+2.2	+1.9	6.5 Q4
Netherlands	+2.5 Q1	+2.3	+2.6	+2.5	+5.8 Mar	+1.8 Apr	+1.6	+1.6	4.7 Apr††
Spain	+4.1 Q1	+4.6	+3.5	+2.8	+2.3 Mar	+2.4 Apr	+3.9	+2.6	8.2 Apr
Czech Republic	+5.8 Q4	+5.8	+5.3	+4.9	+12.7 Mar	+2.5 Apr	+2.8	+2.6	6.8 Apr
Denmark	+2.9 Q4	+1.5	+2.3	+2.3	+6.1 Mar	+1.7 Apr	+1.8	+1.9	3.9 Mar
Hungary	+2.9 Q1	+2.8	+2.6	+3.1	+6.8 Mar	+8.8 Apr	+2.3	+6.8	7.5 Mar††
Norway	+2.8 Q1	+2.9	+2.8§	+2.5§	–4.0 Mar	+0.3 Apr	+2.7	+1.6§	2.7 Mar††
Poland	+6.4 Q4	na	+6.0	+5.3	+12.4 Apr	+2.3 Apr	+0.7	+2.2	14.4 Mar‡‡
Russia	+7.9 Q1	na	+6.7	+6.4	+4.6 Apr	+7.8 Apr	+10.0	+8.2	7.0 Apr‡‡
Sweden	+4.7 Q4	+5.0	+3.8	+3.1	+9.0 Mar	+1.9 Apr	+1.5	+1.6	4.6 Apr‡‡
Switzerland	+2.2 Q4	+1.8	+2.1	+2.0	+8.9 Q4	+0.5 Apr	+1.1	+0.6	2.9 Apr‡‡
Turkey	+5.2 Q4	na	+4.6	+5.7	+2.6 Mar	+10.7 Apr	+8.8	+8.3	9.6 Q4‡‡
Australia	+2.8 Q4	+4.2	+3.0	+3.2	+3.7 Q4	+2.4 Q1	+3.0	+2.6	4.4 Apr
Hong Kong	+7.0 Q4	+5.3	+5.3	+4.9	–1.4 Q4	+1.3 Apr	+1.9	+2.4	4.3 Apr††
India	+8.6 Q4	na	+8.1	+7.6	+12.9 Mar	+6.7 Mar	+4.9	+5.7	7.6 2006
Indonesia	+6.0 Q1	na	+6.0	+5.8	–5.2 Feb	+6.3 Apr	+15.4	+6.5	10.3 2005
Malaysia	+5.7 Q4	na	+5.4	+5.6	–2.7 Mar	+1.5 Apr	+4.6	+2.3	3.0 Q4
Pakistan	+6.6 2006§§	na	+6.6§	+6.0§	+6.8 Sep	+6.9 Apr	+6.2	+6.8§	na
Singapore	+6.1 Q1	+7.6	+5.5	+5.7	–2.9 Mar	+0.6 Apr	+1.1	+1.6	2.9 Q1
South Korea	+4.0 Q1	+3.6	+4.3	+4.6	+3.1 Mar	+2.5 Apr	+2.0	+2.2	3.3 Apr
Taiwan	+4.0 Q4	na	+4.2	+4.6	+2.6 Apr	+0.7 Apr	+1.2	+1.3	4.0 Apr
Thailand	+4.2 Q4	+2.7	+4.0	+4.7	+4.0 Mar	+1.8 Apr	+6.0	+2.5	1.5 Feb
Argentina	+8.6 Q4	+7.4	+7.5	+5.7	+6.8 Apr	+8.9 Apr	+11.6	+9.8	9.7 Q1‡‡
Brazil	+3.8 Q4	+4.5	+3.9	+3.7	+3.9 Mar	+3.0 Apr	+4.6	+3.6	10.1 Mar‡‡
Chile	+5.8 Q1	na	+5.2	+5.1	+5.2 Mar	+2.5 Apr	+3.8	+2.6	6.7 Mar††††
Colombia	+8.0 Q4	nil	+5.4	+4.6	+15.1 Mar	+6.3 Apr	+4.1	+5.1	12.0 Mar‡‡
Mexico	+2.6 Q1	+0.6	+3.2	+3.8	+0.2 Mar	+4.0 Apr	+3.2	+3.8	4.0 Mar‡‡
Venezuela	+11.8 Q4	na	+6.6	+3.9	+6.7 Jan	+19.4 Apr	+11.4	+17.6	8.9 Q4‡‡
Egypt	+7.4 Q1	na	+6.3	+5.6	+10.5 2006	+11.7 Apr	+4.4	+9.9	9.0 Q4‡‡
Israel	+3.7 Q4	+8.0	+4.7	+4.3	+5.2 Mar	–1.3 Apr	+3.8	+0.9	7.7 Q4
Saudi Arabia	+3.4 2006§	na	+3.9§	+5.0§	na	+3.0 Feb	+1.6	+2.5§	na
South Africa	+6.1 Q4	+5.6	+4.8	+4.9	+5.2 Mar	+6.1 Mar	+3.4	+5.4	25.5 Sep‡‡
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	+9.9 Q1	+9.5	+9.2§	+7.6§	+7.4 Mar	+5.5 Apr	+4.3	+4.3§	4.9 Mar
Finland	+5.3 Q4	+3.8	+2.7§	+2.5§	–0.1 Mar	+2.6 Apr	+1.3	+1.9§	6.6 Apr
Iceland	+2.5 Q4	+7.8	+1.3§	+2.7§	na	+4.7 May	+7.6	+5.0§	1.1 Apr‡‡
Ireland	+5.0 Q4	+0.1	+5.3§	+3.6§	+10.7 Mar	+5.1 Apr	+3.7	+3.4§	4.3 Apr
Latvia	+10.7 Q1	na	+9.2§	+7.5§	+1.0 Mar	+8.9 Apr	+6.1	+6.0§	5.6 Mar
Lithuania	+7.1 Q1	+6.1	+6.5§	+6.4§	na	+4.8 Apr	+3.4	+1.8§	5.5 Mar
Luxembourg	+5.0 Q4	+7.0	+4.6§	+4.1§	+2.8 Feb	+2.1 Apr	+2.9	+2.2§	4.6 Mar‡‡
New Zealand	+2.9 Q4	+5.0	+3.1§	+3.1§	–0.4 Q4	+2.5 Q1	+3.3	+2.2§	3.8 Q1
Peru	+5.6 Mar	na	+6.7	+5.6	+7.2 Feb	–0.1 Apr	+2.9	+1.1	9.3 Apr‡‡
Philippines	+6.5 Q4	+5.6	+5.7	+5.8	–10.3 Feb	+2.3 Apr	+7.1	+3.9	7.3 Q4‡‡
Portugal	+2.1 Q1	+3.2	+1.6§	+2.1§	+1.8 Mar	+2.7 Apr	+3.7	+2.2	8.4 Q1‡‡
Slovakia	+8.9 Q1	na	+8.0§	+5.6§	+12.5 Mar	+2.7 Apr	+4.5	+2.5	11.2 Feb
Slovenia	+5.5 Q4	na	+4.0§	+3.8§	+9.3 Mar	+2.6 Apr	+2.7	+2.3	8.1 Mar‡‡

*% change on previous quarter, annual rate. †*The Economist* poll. ‡National definitions. §Economist Intelligence Unit estimate/forecast. **RPI inflation rate 4.5% in Apr. ††Latest three months. ‡‡Not seasonally adjusted. §§Year ending June.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; Centre for Monitoring Indian Economy; OECD; ECB

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

The Economist commodity-price index

May 24th 2007
From The Economist print edition

The Economist commodity-price index

2000=100

	May 15th	May 22nd*	% change on one month	% change on one year
Dollar index				
All items	204.3	204.0	+1.2	+14.2
Food	161.8	161.2	+3.3	+16.1
Industrials				
All	259.2	259.3	–0.4	+12.8
Nfa†	159.1	163.9	+3.9	+3.8
Metals	313.8	311.3	–1.6	+15.6
Sterling index				
All items	156.1	156.6	+2.6	+8.9
Euro index				
All items	138.9	140.1	+2.4	+9.0
Gold				
$ per oz	672.55	661.50	–3.5	–1.0
West Texas Intermediate				
$ per barrel	63.00	64.90	+0.5	–8.9

*Provisional †Non-food agriculturals.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Trade, exchange rates, budget balances and interest rates

May 24th 2007
From The Economist print edition

Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2007†	Currency units, per $ May 23rd	Currency units, per $ year ago	Budget balance % of GDP 2007‡	Interest rates, % 3-month latest	Interest rates, % 10-year gov't bonds, latest
United States	−827.2 Mar	−856.7 Q4	−6.1	–	–	−1.6	5.18	4.86
Japan	+89.8 Mar	+181.5 Mar	+4.0	121	113	−4.7	0.57	1.68
China	+207.3 Apr	+249.9 2006	+8.1	7.65	8.03	−1.6	3.02	3.74
Britain	−157.6 Mar	−80.1 Q4	−3.0	0.50	0.54	−2.6	5.71	5.20
Canada	+46.3 Mar	+21.4 Q4	+1.1	1.08	1.12	0.8	4.15	4.41
Euro area	+3.2 Mar	−5.1 Feb	−0.1	0.74	0.78	−1.0	4.07	na
Austria	+0.6 Feb	+10.3 Q4	+1.9	0.74	0.78	−1.1	4.09	4.41
Belgium	+19.9 Mar	+7.8 Dec	+1.8	0.74	0.78	0.1	4.14	4.42
France	−34.2 Mar	−32.2 Mar	−1.3	0.74	0.78	−2.7	4.09	4.40
Germany	+220.4 Mar	+165.0 Mar	+4.9	0.74	0.78	−1.4	4.09	4.36
Greece	−45.7 Mar	−31.7 Mar	−7.8‡	0.74	0.78	−2.6	4.09	4.55
Italy	−23.1 Mar	−47.1 Feb	−1.9	0.74	0.78	−2.6	4.09	4.57
Netherlands	+43.4 Mar	+16.8 Q1	+7.6	0.74	0.78	0.6	4.09	4.39
Spain	−116.6 Mar	−112.1 Feb	−8.8	0.74	0.78	1.7	4.09	4.41
Czech Republic	+2.6 Mar	−6.1 Q4	−3.8	21.0	22.1	−4.2	2.79	4.25
Denmark	+6.4 Mar	+5.5 Mar	+2.5	5.52	5.84	3.1	4.32	4.42
Hungary	−2.0 Mar	−6.5 Q4	−4.7	184	206	−7.1	7.80	6.53
Norway	+54.3 Apr	+56.1 Q4	+15.3‡	6.01	6.13	18.7	4.64	4.94
Poland	−6.2 Mar	−8.7 Mar	−2.6	2.80	3.11	−2.4	4.44	5.25
Russia	+131.3 Mar	+85.8 Q1	+5.7	25.9	27.0	6.0	10.50	6.09
Sweden	+20.1 Mar	+28.4 Q4	+6.6	6.82	7.29	2.2	3.33	4.21
Switzerland	+10.4 Mar	+106.1 Q4	+15.9	1.23	1.22	1.2	2.46	2.98
Turkey	−53.5 Mar	−32.1 Mar	−7.0	1.32	1.55	−1.6	19.16	18.27
Australia	−10.2 Mar	−40.9 Q4	−5.3	1.21	1.33	1.2	6.33	5.99
Hong Kong	−18.2 Mar	+20.6 Q4	+9.8	7.82	7.76	2.0	4.40	4.17
India	−58.2 Mar	−10.0 Q4	−1.8	40.6	45.8	−4.3	7.62	8.42
Indonesia	+41.1 Mar	+9.6 Q4	+2.2	8,710	9,360	−1.4	8.63	6.25§
Malaysia	+28.6 Mar	+25.6 Q4	+13.5	3.39	3.64	−3.3	3.62	5.40§
Pakistan	−13.6 Apr	−6.5 Q4	−5.4‡	60.7	60.2	−4.6	9.81	6.76§
Singapore	+35.0 Apr	+36.3 Q4	+23.3	1.53	1.59	0.3	2.34	2.65
South Korea	+17.2 Apr	+5.7 Mar	+0.2	932	950	0.4	5.05	5.22
Taiwan	+13.0 Apr	+28.1 Q1	+6.7	33.4	32.0	−2.3	1.86	2.23
Thailand	+6.6 Mar	+8.1 Mar	+2.1	34.6	38.6	−1.2	3.90	3.46
Argentina	+11.4 Apr	+8.1 Q4	+2.5	3.09	3.08	1.0	9.44	na
Brazil	+46.7 Apr	+13.6 Mar	+0.8	1.94	2.34	−2.2	12.43	6.16§
Chile	+24.0 Apr	+5.3 Q4	+1.3	525	532	4.3	5.04	5.37§
Colombia	−0.9 Feb	−2.9 Q4	−2.7	1,957	2,511	−1.5	7.61	5.95§
Mexico	−10.2 Apr	−1.5 Q4	−1.4	10.8	11.3	−0.4	7.24	7.72
Venezuela	+33.0 Q4	+27.2 Q4	+9.8	2,147	2,565	−3.8	10.11	6.55§
Egypt	−12.6 Q4	+2.7 Q4	+1.5	5.70	5.77	−8.0	6.90	5.37§
Israel	−7.5 Apr	+6.8 Q4	+3.6	3.97	4.53	−2.8	3.74	4.38
Saudi Arabia	+148.5 2006	+95.4 2006	+18.2‡	3.75	3.75	13.2	5.04	na
South Africa	−9.5 Mar	−16.3 Q4	−6.0	7.05	6.63	0.5	9.70	7.69
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Estonia	−3.6 Feb	−2.7 Feb	−12.7‡	11.6	12.3	1.3	4.68	na
Finland	+12.3 Mar	+13.7 Mar	+5.6‡	0.74	0.78	2.3	4.05	4.40
Iceland	−1.8 Apr	−4.4 Q4	−18.7‡	61.5	73.1	1.8	13.76	na
Ireland	+33.6 Feb	−7.2 Q4	−4.2‡	0.74	0.78	0.8	4.09	4.39
Latvia	−5.6 Mar	−4.8 Feb	−19.5‡	0.52	0.55	−1.2	9.05	na
Lithuania	−5.7 Mar	−3.5 Mar	−10.3‡	2.56	2.71	−0.5	4.96	na
Luxembourg	−5.3 Feb	+4.4 Q4	na	0.74	0.78	−0.8	4.09	na
New Zealand	−4.0 Apr	+6.2 Q4	−10.3‡	1.37	1.59	3.1	6.95	6.24
Peru	+9.0 Mar	+2.5 Q4	+1.8	3.16	3.27	0.1	4.50	na
Philippines	−4.0 Feb	+5.0 Dec	+3.6	46.0	52.9	−1.0	6.13	na
Portugal	−23.0 Feb	−17.8 Feb	−7.7‡	0.74	0.78	−3.7	4.09	4.49
Slovakia	−2.5 Mar	−3.9 Jan	−4.3‡	25.0	29.7	−3.0	4.01	4.34
Slovenia	−1.9 Mar	−1.4 Feb	−1.6‡	0.74	0.78	−1.2	na	na

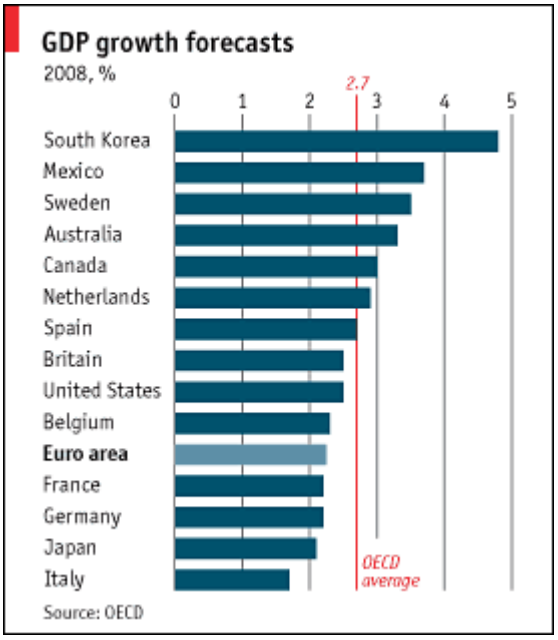
*Merchandise trade only. †*The Economist* poll. ‡Economist Intelligence Unit forecast. §Dollar-denominated bonds. **Average of maturities up to 5 years.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; JPMorgan; Bank Leumi le-Israel; Centre for Monitoring Indian Economy; Danske Bank; Hong Kong Monetary Authority; Standard Bank Group; UBS; Westpac.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

GDP growth forecasts

May 24th 2007
From The Economist print edition



In its latest *Economic Outlook*, the OECD foresees few dramas: a soft landing in America and a sustained recovery in Europe this year, followed by steady growth in all of the big economies in 2008. But even though America will grow more quickly next year than this, it may not feel like it. Private consumption will increase by just 1.7% of GDP in 2008. The OECD's projections assume little monetary stimulus: it expects both the Federal Reserve and the Bank of Japan to hold interest rates steady this year (the European Central Bank will raise them twice, to 4.25%). Indeed, the economies of the OECD will erase their collective output gap in 2007, fulfilling their potential for the first time since 2001.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Markets

May 24th 2007
From The Economist print edition

Markets

	Index May 23rd	% change on one week	% change on Dec 29th 2006 in local currency	% change on Dec 29th 2006 in $ terms
United States (DJIA)	13,525.7	+0.3	+8.5	+8.5
United States (S&P 500)	1,522.3	+0.5	+7.3	+7.3
United States (NAScomp)	2,577.1	+1.2	+6.7	+6.7
Japan (Nikkei 225)	17,705.1	+1.0	+2.8	–0.1
Japan (Topix)	1,740.1	+1.6	+3.5	+0.6
China (SSEA)	4,375.2	+4.8	+55.4	+63.9
China (SSEB, $ terms)	323.4	–2.2	+135.7	+148.5
Britain (FTSE 100)	6,616.4	+0.9	+6.4	+23.2
Canada (S&P TSX)	14,142.5	+0.8	+9.6	+18.3
Euro area (FTSE Euro 100)	1,414.3	+1.9	+10.6	+26.5
Euro area (DJ STOXX 50)	4,499.7	+1.7	+9.2	+24.9
Austria (ATX)	4,883.4	+2.4	+9.4	+25.1
Belgium (Bel 20)	4,756.8	+1.8	+8.4	+24.0
France (CAC 40)	6,120.2	+1.7	+10.4	+26.3
Germany (DAX)*	7,735.9	+3.4	+17.3	+34.1
Greece (Athex Comp)	4,924.7	+1.2	+12.1	+28.2
Italy (S&P/MIB)	43,567.0	–0.5	+5.1	+20.2
Netherlands (AEX)	541.6	+2.7	+9.3	+25.0
Spain (Madrid SE)	1,677.1	+1.9	+7.9	+23.3
Czech Republic (PX)	1,838.2	+1.2	+15.7	+35.9
Denmark (OMXCB)	483.7	+3.3	+14.0	+30.5
Hungary (BUX)	26,011.9	+1.8	+4.7	+21.8
Norway (OSEAX)	566.0	+3.8	+12.7	+26.9
Poland (WIG)	61,505.9	+3.2	+22.0	+41.7
Russia (RTS, $ terms)	1,815.6	–2.2	–15.0	–5.5
Sweden (Aff.Gen)	409.0	+1.8	+12.0	+30.7
Switzerland (SMI)	9,438.8	+0.9	+7.4	+15.5
Turkey (ISE)	46,424.7	+1.9	+18.7	+21.3
Australia (All Ord.)	6,369.0	+1.1	+12.8	+26.7
Hong Kong (Hang Seng)	20,799.0	–0.7	+4.2	+3.2
India (BSE)	14,363.3	+1.7	+4.2	+15.6
Indonesia (JSX)	2,104.2	+2.0	+16.5	+31.7
Malaysia (KLSE)	1,355.0	+0.2	+23.6	+37.8
Pakistan (KSE)	12,496.2	+1.9	+24.5	+22.5
Singapore (STI)	3,559.0	+1.7	+19.2	+29.6
South Korea (KOSPI)	1,646.6	+2.9	+14.8	+24.6
Taiwan (TWI)	8,221.8	+2.9	+5.1	+3.3
Thailand (SET)	731.2	+1.3	+7.6	+27.4
Argentina (MERV)	2,196.1	+1.5	+5.1	+3.0
Brazil (BVSP)	51,812.0	+0.1	+16.5	+40.2
Chile (IGPA)	13,908.5	–2.0	+12.4	+9.7
Colombia (IGBC)	10,595.6	+2.0	–5.1	+10.9
Mexico (IPC)	30,869.8	+1.7	+16.7	+15.3
Venezuela (IBC)	40,412.7	–1.7	–22.6	–6.8
Egypt (Hermes)	67,330.4	+1.7	+9.9	+10.7
Israel (TA-100)	1,087.1	–2.2	+17.9	+36.8
Saudi Arabia (Tadawul)	7,709.3	+2.0	–2.8	–2.8
South Africa (JSE AS)	29,087.5	+3.7	+16.7	+5.1
Europe (FTSEurofirst 300)	1,609.8	+1.8	+8.5	+24.1
World, dev'd (MSCI)	1,612.6	+0.9	+8.7	+8.7
Emerging markets (MSCI)	1,016.0	+1.2	+11.3	+11.3
World, all (MSCI)	400.6	+0.9	+8.9	+8.9
World bonds (Citigroup)	662.1	–0.7	+0.6	+0.6
EMBI+ (JPMorgan)	420.5	–0.3	+3.2	+3.2
Hedge funds (HFRX)	1,349.5	+0.8	+5.8	+5.8
Volatility, US (VIX)	13.2	13.5	11.6	(levels)
CDSs, Eur (iTRAXX)†	17.1	–5.8	–20.2	–8.7
CDSs, N Am (CDX)†	30.3	–3.0	+3.0	+3.0
Carbon trading (EU ETS) €	0.25	–3.8	–96.0	–95.5

*Total return index. †Credit-default swap spreads, basis points.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; JPMorgan Chase; Bank Leumi le-Israel; CBOE; CME; Danske Bank; FEX; HKMA; Markit; Standard Bank

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.